



March 2026

## **The Supreme Court of India partially set-aside an arbitral award, upholding the contractual bar on pre-award interest and clarifying the distinction between pre-award and post-award interest**

The Supreme Court of India (“**Supreme Court**”), in the case of *Union of India and Ors. vs. Larsen & Toubro Limited*<sup>1</sup>, partly allowed an appeal by setting aside an arbitral award to the extent of pre-award interest/*pendente lite* interest since the same was impermissible in view of the express contractual bars under Clause 16(3)<sup>2</sup> and Clause 64(5)<sup>3</sup> of the General Conditions of Contract (“**GCC**”). Additionally, it upheld the post-award interest by observing that the bar of pre-award interest does not extend to post-award interest. Hence, the statutory mandate of granting post-award interest as a matter of law under Section 31(7)(b)<sup>4</sup> of the Arbitration and Conciliation Act, 1996 (“**Arbitration Act**”) was upheld with modification of the interest rate.

The ruling reaffirms the statutory scheme under Section 31(7)(b) of the Arbitration Act which subordinates an arbitral tribunal’s power to award pre-award interest to the parties’ contractual agreement.

### **Brief facts**

1. The Union of India and North Central Railway Administration (“**Appellants**”) entered into an agreement dated January 27, 2011, with Larsen & Turbo Limited (L&T) (“**Respondent**”) for execution of work relating to modernisation of the Jhansi Workshop of North Central Railways (“**Agreement**”). The Agreement was valued at INR 93,08,07,696 (Indian Rupees ninety-three crore eight lakh seven thousand six hundred and ninety-six). The original completion date was July 18, 2012 (a period of 18 (eighteen) months). However, the said deadline was extended several times, until November 30, 2015, resulting in a total delay of 40 (forty) months beyond the original deadline.
2. Disputes concerning the work and outstanding payments arose between the parties under the Agreement. Accordingly, the Respondent commenced arbitration proceedings against the Appellant under the GCC which provided for the arbitration agreement. Accordingly, the Arbitral Tribunal (“**Arbitral Tribunal**”) was constituted.
3. The Arbitral Tribunal passed the arbitral award on December 25, 2018 (“**Award**”) directing the Appellants to pay the Respondent a total sum of INR 5,53,57,597 (Indian Rupees five crore fifty-three lakh fifty-seven thousand five

<sup>1</sup> 2026 INSC 203 | (arising from Special Leave Petition (Civil) No. 14989 of 2023) (decided on February 27, 2026)

<sup>2</sup> “no interest will be payable upon the Earnest Money and Security Deposit or amounts payable to the Contractor under the Contract, but Government Securities deposited in terms of Sub-Clause (1) of this clause will be payable with interest accrued thereon”.

<sup>3</sup> “where the arbitral award is for the payment of money, no interest shall be payable on whole or any part of the money for any period till the date on which the award is made.”

<sup>4</sup> Section 31(7)(b) of the Arbitration Act provides statutory rate of interest calculated as per the rate provided in the provision on the sum directed to be paid in an arbitral award, unless otherwise directed in the award.

hundred and ninety-seven) by the Appellants to the Respondent. This amount includes, *inter alia*: (a) interest on certain amounts for the delay in payments of amount payable by the Appellant to the Respondent under the Agreement; and (b) post-award interest at 12% per annum in the event of non-payment of the compensation provided under the Award within 60 (sixty) days. However, the Arbitral Tribunal rejected the claim for *pendente lite* interest, expressly acknowledging the bar provided under Section 31(7) (a)<sup>5</sup> of the Arbitration Act read with Clause 64(5) of the GCC.

4. Being aggrieved by the Award, the Appellants filed an application under Section 34<sup>6</sup> of the Arbitration Act before the Commercial Court, Jhansi (“**Commercial Court**”), arguing that the award of interest/compensation granted under the Award violated the contractual prohibitions contained in Clause 16(3) and Clause 64(5) of the GCC. The Commercial Court dismissed the application on the ground that the Award does not warrant interference of the Commercial Court (“**Commercial Court Order**”).
5. Thereafter, the Appellants filed an appeal against the Commercial Court Order under Section 37<sup>7</sup> of the Arbitration Act before the Allahabad High Court. The Allahabad High Court dismissed the appeal, *vide* its judgment dated May 25, 2023, while holding that: (a) Clause 16(3) of the GCC was confined in its operation to earnest money and security deposits and did not constitute a general bar on interest payable on all amounts due to the contractor (Respondent) under the Agreement; and (b) Clause 64(5) of the GCC merely barred *pendente lite* interest (“**HC Order**”).
6. Aggrieved by the HC Order, the Appellants filed the present appeal<sup>8</sup> arguing that Clauses 16(3) and 64(5) of the GCC constituted an absolute prohibition on the award of interest on all amounts due to the contractor (Respondent) under the Agreement and is not limited to interest payable upon the earnest money or the security deposit. Hence, the Appellant claimed that the Arbitral Tribunal exceeded its jurisdiction by awarding interest since the same is beyond the scope of the Agreement.

## Issues

1. Whether the Tribunal is justified in awarding pre-award/*pendente lite* interest, by way of ‘compensation’, in view of the express contractual bar under Clause 16(3) and Clause 64(5) of the GCC?
2. Whether the Arbitral Tribunal is justified in awarding post-award interest and whether a contractual bar on pre-award interest extended to post-award interest as well?

## Findings and analysis

The Supreme Court observed that:

1. the provisions of the Arbitration Act, including Section 31(7)(a) of the Arbitration Act gives significance to the terms of the contract agreed to between the parties and restricts the tribunal’s power to award pre-award/*pendente lite* interest when the same is agreed under the contract. Further, the Supreme Court recognised the definitive distinction between pre-award and post-award interest and observed that post-award interest is calculated from the date of the award till payment, unless otherwise provided in the award;
2. Clause 64(5) of the GCC is limited to *pendente lite* interest and is not applicable on other interest amounts. However, while drawing parallels between Clause 16(3) of the Agreement with the clause provided in *Union of*

<sup>5</sup> Section 31(7)(a) of the Arbitration Act grants the Arbitral Tribunal the authority to impose interest on the awarded amount, unless otherwise agreed by the parties.

<sup>6</sup> Section 34 of the Arbitration Act provides the parties an opportunity to contest the arbitral award by filing an application for setting aside the award, including the conditions when an arbitral award may be set aside by the court.

<sup>7</sup> Section 37 of the Arbitration Act is an appeal against the order passed under Section 34 of the Arbitration Act as explained hereinabove.

<sup>8</sup> Special Leave Petition (Civil) No. 14989 of 2023

*India vs. Manraj Enterprises*<sup>9</sup>, the Supreme Court noted that the disjunctive word ‘or’ renders the phrase “amounts payable to the Contractor under the Contract” an independent expression and not subject to earnest money or security deposit. Hence, the rule of *ejusdem generis* cannot be invoked in the present instance to limit the scope of the clause to deposits to earnest money or security deposits and the said clause is applicable on other amounts payable to the contract. Accordingly, the pre-award interest granted under the Award was set aside by the Supreme Court as being erroneous;

3. the distinctiveness between pre-award and post-award and held that a contractual bar on pre-award interest cannot be extended to post-award interest unless specifically provided under the contract. Hence, the statutory mandate of granting post-award interest as a matter of law under Section 31(7)(b) of the Arbitration Act was upheld, since it ensures timely satisfaction of the award. Accordingly, Appellant’s contention to set aside the post-award interest was rejected; and
4. while upholding the award of post-award interest, the Supreme Court modified the rate from 12% per annum to 8% per annum from the date of the Award till realisation. The Supreme Court observed that the Tribunal had not assigned any reasons for fixing the rate at 12% per annum. Relying on *Gayatri Balasamy vs. M/s. ISG Novasoft Technologies Limited*<sup>10</sup>, the Supreme Court affirmed that courts retain the power to modify the rate of post-award interest under Section 31(7)(b) of the Arbitration Act where compelling reasons exist.

Accordingly, the appeal was partially upheld.

## Conclusion

The Supreme Court clarified the distinction between the pre-award interest and post-award interest, while recognising the statutory mandate of granting post-award interest unless agreed otherwise. Additionally, it affirms the principle that under the Arbitration Act, the statutory scheme embodied in Section 31(7)(a) of the Arbitration Act gives importance to the agreement between the parties and restricts the power of an arbitrator to award pre-award/*pendente lite* interest when the parties have expressly agreed to the contrary. This ruling is significant for public sector contracts and Government infrastructure projects, which routinely incorporate GCC clauses, as it provides important guidance on the interpretation of provisions relating to interest on amounts payable to contractors.

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<sup>9</sup> (2022) 2 SCC 331

<sup>10</sup> (2025) 7 SCC 1

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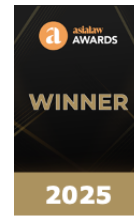
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