

**If the contract doesn't stipulate for payment of interest on a delayed payment, a party is not entitled to the same. The object of the Interest Act, 1978 is to mandate the payment of interest to the parties in the absence of, or any vacuum in the agreement, or where the interest so fixed is contrary to law, being in the nature of an exorbitant charge**

The **Supreme Court** in the case of **Kerala Water Authority vs T I Raju [SLP(C) NO(s). 17823/2023]** dated **February 09, 2026**, has held that when the contract doesn't stipulate for payment of interest on a delayed payment, a party is not entitled to the same. The Court observed that the object of the Interest Act, 1978 is to mandate the payment of interest to the parties in the absence of, or any vacuum in the agreement, or where the interest so fixed is contrary to law, being in the nature of an exorbitant charge.

The case arose from a contract executed in April 2013 between the Kerala Water Authority and the Respondent-contractor for the construction of a sewage treatment plant at the Government Medical College, Calicut. The work was completed in July 2014, but the principal amount of Rs. 86.64 lakh was released only in March 2016 following a writ petition. The Respondent subsequently filed a civil suit seeking interest at 14% per annum for the delay.

The Trial Court allowed the claim and the High Court later reduced the interest to 9%, prompting the Kerala Water Authority to move to the Supreme Court, challenging the impugned finding in view of the express clause mentioned in the contract which stated that payments would be subject to availability of funds and seniority of bills, and that “no claims or interest for damages whatsoever shall be made for the belated settlement of claims.” When the matter reached the High Court, it invoked Section 3(1) of the Interest Act, 1978, to grant interest on delayed payment.

Now, the matter came before the Supreme Court, where it clarified that the Interest Act 1978 applies only where a contract is silent on interest or leaves a vacuum. Section 3(3) of the Act expressly bars the award of interest where a contract prohibits it. It also rejected reliance on Section 34 of the Code of Civil Procedure, observing that the provision deals only with the rate of interest once entitlement is established and does not create a right to interest when barred under the contract.