

**Where a contract contains an express and unambiguous clause prohibiting the payment of interest on amounts payable to the contractor, the arbitrator lacks jurisdiction to award such interest, either directly or indirectly under the guise of 'compensation' or 'financing charges'**

The **Supreme Court** in the case of **Union of India vs Larsen & Turbo Limited [Special Leave Petition (Civil) No. 14989 of 2023]** dated **February 27, 2026**, has held that pre-award and post-award interest operate in distinct fields and a contractual bar applicable to the former cannot, by implication, be extended to the latter, and thus, any exclusion of post-award interest must be explicit and unambiguous. The Court explained that under the Arbitration and Conciliation Act, 1996, an arbitral tribunal's power to grant pre-award or pendente lite interest is circumscribed by the terms of the contract between the parties, as mandated by Section 31(7)(a).

Where a contract contains an express and unambiguous clause prohibiting the payment of interest on amounts payable to the contractor, the arbitrator lacks jurisdiction to award such interest, either directly or indirectly under the guise of 'compensation' or 'financing charges', added the Court, while pointing out that an award granting such interest is contrary to the contract and is liable to be set aside.

The Apex Court emphasised that the grant of post-award interest is governed by Section 31(7)(b) of the 1996 Act and is not subject to party autonomy unless explicitly and unambiguously excluded by the contract. A contractual bar on pre-award or pendente lite interest does not, by implication, extend to post-award interest.

The arbitral tribunal is justified in awarding post-award interest in the absence of an express contractual prohibition. However, the rate of such interest is subject to judicial review and can be modified by the court if it is found to be excessive, unsubstantiated, or not in consonance with the principle of just compensation, explained the Court.

On 'Pre-award and Pendente Lite Interest', the Court observed that contractual bar is absolute, and analysed Clause 16(3) of the GCC, which states, 'no interest will be payable upon the Earnest Money and Security Deposit or amounts payable to the Contractor under the Contract', and Clause 64(5), which bars interest on an award for any period until the date the award is made. The Court further observed that Section 28(3) and Section 31(7)(a) of the 1996 Act subordinate the arbitrator's discretion to the contractual provisions governing interest.

The Court rejected the respondent's argument that the principle of *ejusdem generis* should apply to Clause 16(3), which would limit the interest bar only to sums like earnest money or security deposits. The Court clarified that the expression "amounts payable to the contractor under the contract" is independent and distinct, and the use of the word 'or' means it must be read disjunctively from earnest money and security deposit.

The Court went on to hold that awarding interest under the guise of 'compensation' or 'financing charges' is an attempt to circumvent the express contractual bar. Since the parties are governed by the contract, the Arbitral Tribunal, being a creature of the contract, cannot go

beyond its terms. The Court noted that the Tribunal itself rejected a direct claim for interest but then proceeded to award interest indirectly in Claims 1, 3, and 6, which was a serious error.

On Post-award Interest, the Court observed that post-award interest is governed by a distinct legal regime under Section 31(7)(b) of the Act, which operates independently of the principles applicable to pre-award interest. The Court emphasised that Clause 64(5) of the GCC only bars interest 'till the date on which the award is made' and does not prohibit interest for the period subsequent to the award. Further, the Court found no other provision in the GCC that expressly bars post-award interest. In the absence of such an explicit and unambiguous exclusion, the statutory mandate under Section 31(7)(b) must prevail.