

Employer is entitled to withhold gratuity and adjust penal rent from it for the unauthorised occupation of company quarters by a retired employee, in accordance with the governing service rules

The **Supreme Court** in the case of **The Management of Steel Authority of India vs Shambhu Prasad Singh [2026 INSC 263]** dated **March 18, 2026**, has ruled that an employer (Steel Authority of India) is entitled to withhold gratuity and adjust penal rent from it for the unauthorised occupation of company quarters by a retired employee, in accordance with the governing service rules. The Court held that the obligations to vacate the accommodation and to release gratuity are mutual and reciprocal.

However, an order passed by a court on the specific facts of a case, without laying down a legal principle, does not serve as a binding precedent. Further, where service rules authorise the withholding of gratuity for non-vacation of quarters, the employee is not entitled to any interest on the withheld amount for the period of unauthorised occupation.

However, exercising its equitable jurisdiction, the Apex Court fixed a penal rent of Rs. 1,000 per month for the present batch of cases only, considering the hardship to retired workers and other specific circumstances, explicitly stating that this shall not be treated as a precedent.

The Court observed that under Rule 3.2.1(c) of the SAIL Gratuity Rules, 1978, the management is expressly empowered to withhold the gratuity amount for non-compliance with company rules, including the non-vacation of accommodation. The rules further stipulate that no interest shall be payable on the gratuity amount so withheld during the period of unauthorised occupation.

The Court also affirmed that the obligation of the Ex-Employee to vacate the quarters and the obligation of the management to release the gratuity are mutual and reciprocal, and neither can be enforced in isolation. Citing the binding judgment in *Secretary, ONGC Ltd. v. V. U. Warriar [(2005) 5 SCC 245]*, it was established that if an employee occupies a quarter beyond the specified period, penal rent is a natural consequence and can be adjusted against dues payable, including gratuity.