

GRC BULLETIN

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Case Law

Supreme court clarifies the method for calculating interest in arbitration awards

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JUDICIAL INSIGHT

Case Title

M/s. D. Khosla and
Company Vs. Union
of India [Special
Leave Petition (Civil)
No. 812 of 2014

SUPREME COURT CLARIFIES THE METHOD FOR CALCULATING INTEREST IN ARBITRATION AWARDS

FACTS OF THE CASE:

- A contract established between M/s. D. Khosla and Company (the petitioner) and the Union of India (the respondent) in 1984-85 led to an arbitration award issued on 17.09.1997 under the Indian Arbitration Act, 1940.
- The arbitration award included provisions for interest: 12% per annum from the completion of work until the date of the award, and 15% per annum from the award date until payment or court decree.
- The court decree, consistent with the award, mirrored the same interest provisions.
- Although the petitioner received the principal amount along with the awarded interest, they sought additional interest, arguing that the 15% post-award interest should apply to both the principal and the 12% pre-award interest.
- In Execution Petition No. 9 of 2006, the Principal Senior Civil Judge, Khambhalia, denied the petitioner's request for 15% interest on the principal sum plus 12% interest.
- The Gujarat High Court affirmed this decision on 06.09.2013
- Subsequently, the petitioner approached the Supreme Court with a Special Leave Petition.

ISSUE:

Does the petitioner have the right to receive an additional 15% interest per year on the principal amount, alongside the 12% annual interest for the period before the award?

SUPREME COURT'S VERDICT:

- The Supreme Court ruled that the concept of compound interest, or interest on interest, is not permitted unless specifically stated by statute or contractual agreement.
- The arbitration award only allowed for simple interest: 12% per annum for the pre-award period on the principal sum and 15% per annum solely on the principal sum for the post-award period.



JUDICIAL INSIGHT

- The Supreme Court upheld the lower courts' decisions, ruling that the petitioner was not entitled to 15% interest on both the principal and the 12% pre-award interest.
- The Court emphasized that compound interest is not allowed unless explicitly provided in the award or mandated by law.
- It was determined that only the simple interest outlined in the award is to be applied, with no supplementary interest added to the pre-award interest.

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