



CIVIL

Supreme Court Endorses Rs 2 Lakh Penalty for Premature Resignation, Declares Employment Bond Valid Under Contract Act

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In a judgment delivered on May 14, 2025, the Supreme Court of India addressed a significant issue concerning employment contracts and the legality of clauses requiring employees to pay liquidated damages for premature resignation. The case, titled “Vijaya Bank & Anr. versus Prashant B Narnaware” (Civil Appeal No. 11708 of 2016), involved a detailed examination of the principles of restraint of trade, public policy, and the interpretation of standard form contracts in the context of employment agreements.

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Background of the Case

The case originated from a recruitment process initiated by Vijaya Bank in 2006, where the bank sought to appoint 349 officers across various grades. Clause 9(w) of the recruitment notification required selected candidates to execute an indemnity bond of Rs. 2 lakhs, promising to pay the bank if they left the service before completing three years. Prashant B Narnaware, the respondent, applied for the post of Senior Manager-Cost Accountant and was selected. On August 7, 2007, he received an appointment letter that included Clause 11(k), which reiterated the requirement to serve the bank for a minimum of three years and execute an indemnity bond for Rs. 2 lakhs. If he resigned before the three-year period, he would have to pay the specified amount. Narnaware accepted the terms, resigned from his previous post, and joined the bank. However, on July 17, 2009, before completing three years, he tendered his resignation to join another bank, IDBI. Under protest, he paid Rs. 2 lakhs to Vijaya Bank on October 16, 2009.

Karnataka High Court Decision

Narnaware filed a writ petition in the High Court of Karnataka, challenging Clause 9(w) of the recruitment notification and Clause 11(k) of the appointment letter. He argued that these clauses violated Articles 14 and 19(1)(g) of the Constitution of India and Sections 23 and 27 of the Indian Contract Act, 1872. The High Court, relying on the decision in *K.Y. Venkatesh Kumar v. BEML Ltd.*, allowed the writ petition and quashed the clauses. The High Court directed Vijaya Bank to refund the Rs. 2 lakhs paid by Narnaware. The bank appealed this decision to the Supreme Court.

Rival Contentions

The appellants, Vijaya Bank, contended that the clause was a legitimate measure to ensure the retention of employees and to protect the bank's interests. They argued that the liquidated damages were not disproportionate and were necessary to cover the bank's losses due to premature resignations. The bank maintained that the clause did not amount to restraint of trade and was not opposed to public policy.

On the other hand, Narnaware argued that the clause was unreasonable and oppressive, given the unequal bargaining power between the bank and the employee. He contended that the liquidated damages were disproportionately high and resulted in unjust enrichment for the bank. Narnaware further argued that the clause violated fundamental rights and public policy.

Legal Provisions and Judgments Relied Upon

The Supreme Court examined several legal provisions and judgments in its analysis. Section 27 of the Indian Contract Act, 1872, declares agreements that restrain a person from exercising a lawful profession, trade, or business as void, with exceptions for sale of goodwill. Section 23 of the Indian Contract Act, 1872, declares agreements opposed to public policy as void. The court also relied on the principles established in *Niranjan Shankar Golikari v. Century Spinning and Manufacturing Co.*, which distinguished between restrictive covenants during the subsistence of an employment contract and those after its termination.

The case of Superintendence Company (P) Ltd. v. Krishan Murgai reiterated these principles, emphasizing that restrictive covenants during the term of employment are not void under Section 27. Additionally, the court considered the judgment in Central Inland Water Transport Corporation Ltd. v. Brojo Nath Ganguly, which dealt with the interpretation of standard form contracts and the concept of public policy.

Supreme Court Analysis

The Supreme Court analysed the clause in the context of restraint of trade and public policy. The court held that the clause did not amount to restraint of trade. The restriction was to ensure a minimum service period and was in furtherance of the employment contract, not to restrain future employment. The court further examined whether the clause was unconscionable, unfair, or unreasonable. It considered the bank's need to retain employees to maintain efficiency and reduce attrition. The court found that the liquidated damages were not disproportionate and were justified given the bank's recruitment costs and potential losses.

Final Decision

The Supreme Court allowed the appeal and set aside the High Court's judgment. It held that the restrictive covenant in Clause 11(k) was neither in restraint of trade nor opposed to public policy. The court concluded that the clause was a legitimate measure to protect the bank's interests and ensure the retention of employees in a competitive market environment. In a related appeal (Civil Appeal No. 11499 of 2016), the court dismissed the appeal, finding no reason to interfere with the High Court's order, given the principles established in the main appeal.

Concluding Remarks

The judgment in Vijaya Bank & Anr. versus Prashant B Narnaware provides clarity on the legality of employment contract clauses requiring liquidated damages for premature resignation. The Supreme Court's decision stresses upon the importance of balancing the interests of employers in retaining key personnel with the rights of employees to seek better opportunities. This case highlights the evolving nature of public policy and the need for courts to consider the broader economic context when interpreting employment contracts.

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