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Arbitration Law Update: Supreme Court Affirms Arbitral Tribunal’s Power to Award Interest for Pre-Reference, Pendente Lite and post award and Interest on Interest

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In a judgment delivered on May 15, 2025, the Supreme Court of India addressed a critical issue in arbitration law, affirming the power of arbitral tribunals to award interest on principal amounts and previously awarded interest. The case, titled “Interstate Construction vs. National Projects Construction Corporation Ltd.,” involved a long-standing dispute over contractual dues and recoveries related to the Ramagundam Super Thermal Power Project in Andhra Pradesh. This decision not only clarifies the legal position on interest awards under the Arbitration and Conciliation Act, 1996, but also signifies the importance of procedural fairness and judicial restraint in arbitration matters.

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Background of the Case

The dispute between M/s Interstate Construction (the Appellant) and National Projects Construction Corporation Ltd. (the Respondent) dates back to 1984 when the Respondent engaged the Appellant to execute a contract for the Ramagundam Super Thermal Power Project. Two separate work orders were issued, and a contract agreement was subsequently entered into by the parties. The Appellant completed the work in 1987, but the Respondent withheld certain payments, leading to disputes over contractual dues and recoveries. The Appellant invoked the arbitration clause in 1993, setting the stage for a protracted legal battle.

Arbitration Proceedings and Award

The arbitration process saw multiple changes in the appointment of arbitrators, with the final award pronounced by Mr. Justice R.C. Jain on October 28, 2020. The award included claims for interest on various heads, including pre-reference interest, pendente lite interest, and future interest. The Respondent challenged this award under Section 34 of the Arbitration and Conciliation Act, 1996, specifically contesting the interest awarded on the principal amount plus previously awarded interest.

Rival Contentions

The Appellant claimed an aggregate amount of Rs. 4,46,29,404.00, including interest at 24% per annum. They argued that the interest should be calculated on the principal amount and previously awarded interest. The Respondent, however, contended that the arbitral tribunal’s award of interest on the principal amount plus previously awarded interest was impermissible, amounting to compound interest. They also argued that the award of interest for three periods (pre-reference, pendente lite, and future) was contrary to the provisions of Section 31(7) of the 1996 Act.

Legal Provisions and Judgments Relied Upon

The Supreme Court relied on several legal provisions and judgments to analyse the case. Section 31(7) of the Arbitration and Conciliation Act, 1996, was central to the debate. This section allows the arbitral tribunal to include interest in the award for the period between the date of the cause of action and the date of the award (clause a) and from the date of the award to the date of payment (clause b). The court also referred to several landmark judgments, including Sayeed Ahmed and Company vs. State of Uttar Pradesh, Pam Developments Private Limited vs. State of West Bengal, and Hyder Consulting (UK) Ltd. vs. Governor, State of Orissa, to clarify the legal position on interest awards.

Analysis of the Court

The Supreme Court analysed Section 31(7) of the 1996 Act and held that the arbitral tribunal has the discretion to award interest for the whole or any part of the period between the date of the cause of action and the date of the award. This includes the pre-

reference period and pendente lite period. The court further held that the sum awarded, including interest, could carry further interest from the date of the award to the date of payment. This means that interest on previously awarded interest is permissible, effectively allowing compound interest.

Conclusion

The Supreme Court's decision in Interstate Construction vs. National Projects Construction Corporation Ltd. is a landmark judgment that clarifies the legal position on interest awards in arbitration proceedings. By upholding the arbitral tribunal's power to award interest on principal amounts and previously awarded interest, the court has provided much-needed clarity and guidance. This judgment shows the need for procedural fairness and judicial restraint in arbitration matters, ensuring that parties receive just and equitable treatment under the law. The decision is expected to have a significant impact on future arbitration cases.

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