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Delayed Payment Does Not Mean Automatic Interest Says Supreme Court In A Landmark Ruling

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Kerala Water Authority & Ors. v. T.I. Raju & Ors | Civil Appeal Nos. of 2026 (Arising out of SLP (C) Nos. 17823/2023 & 24631/2023) | Decided on: 9 February 2026

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Introduction

A landmark decision by the Hon'ble Supreme Court of India on government contracts and claims for delayed payment is significant because when a contract prohibits payment of interest on delayed bills, courts cannot award such interest using statutory provisions. It was made in cross-appeals by Kerala Water Authority and contractor T. I. Raju, and it sets out the context of the contractual stipulations and the Interest Act (1978) vis-a-vis Section 34 of the Code of Civil Procedure (1908). The Supreme Court eventually allowed Kerala Water Authority's appeal and dismissed the contractor's claim for interest.

Factual Background

A. Execution of the Project

T.I. Raju entered into a preliminary agreement with the Kerala Water Authority for constructing a Sewage Treatment Plant at Medical College, Calicut. The project was meant for development of public infrastructure. The contractor completed the work on 7 July 2014. Upon completion, a principal amount of ?86,64,846 became payable to Raju. For administrative reasons and budgetary limitations, payment was not immediately made.

B. Writ for Principal Amount

The contractor requested payment for the outstanding principal amount in 2015. The writ petition was upheld by the High Court and the dues were finally settled on 2 March 2016. More importantly, the **High Court left the question of interest on delayed payment open.**

On 25 November 2017, the contractor filed a civil suit seeking interest at 14% per annum for the period between 9 July 2014 and 2 March 2016. The Trial Court decree consist of following points-

- ?21,48,411 for interest.
- Interest at 14% from the time of filing to the time of realization.

The High Court on appeal modified the decree by:

- Lowering per annum interest to 9%.
- Lowering pendente lite interest to 6%.
- Both sides challenged the High Court's decision before the Supreme Court.

The Central Question Of Law

Can a contractor claim interest on late payment when the contract expressly prohibits such a claim?

Clause 5 of the preliminary agreement provided that bills would be settled only subject to the availability of budget provisions and would be cleared according to their seniority. It further categorically stipulated that no claim for interest or damages would be made for the belated settlement of bills. This provision formed the foundation of the Supreme Court's reasoning. The Court held that the clause was neither unconscionable nor imposed, but rather reflected the practical realities of public projects, where work may commence even before full budgetary allocation is secured, in the larger public interest.

Supreme Court's Legal Analysis

1.Sanctity of Contract

The Court emphasized the obligation of parties to the terms of the contract that are voluntarily agreed. If a contractor accepts a clause not allowing interest on late payments, he cannot later try to avoid it. The Bench observed that contractors are due to accommodate expected delays whenever quoting rates. The term was unambiguous, straightforward, and agreed upon by both parties. Accordingly, the waiver of interest by the parties in the contract was enforceable.

2. Interpretation of the Interest Act, 1978

The High Court had relied on Section 3(1) of the Interest Act, 1978 to award interest. The Supreme Court stressed the significance of Section 3(3) but again pointed out that interest cannot be awarded where the contract between the parties prohibits payment of interest. The Court clarified that the Interest Act fills gaps and voids. If contracts are silent, then this Act fills the void. It does not replace express contract terms and conditions. Courts cannot rewrite contracts in the name of equitable relief. Accordingly, the High Court's decision in bypassing the statutory exception in Section 3(3) was wrong.

3. Section 34 of the Code of Civil Procedure

The contractor relied on Section 34 of the Code of Civil Procedure, 1908, which places the power of granting interest with the courts. The Supreme Court dismissed this argument, finding once interest is payable, the rate and manner of interest as determined by Section 34 applies. It does not create a substantive right to interest in breach of contractual terms. And it cannot supersede Section 3(3) of the Interest Act. Thus, statutory provisions cannot be used to override contractual autonomy.

4. Status of Kerala Water Authority

The Court held that the project had to be performed for public purposes, so the Kerala Water Authority can be classed as "State" under Article 12 of the Constitution. The Court noted that public infrastructure projects often begin despite a lack of adequate funding to prevent hardship to the public. It was the practical realities which Clause 5 was designed to address precisely to ensure this.

Decision Of The Supreme Court

- The Section 3(3) of the Interest Act was not properly considered by the High Court.
- Clause 5 in the agreement explicitly barred claims for interest.
- The contractor was not entitled to interest on the delayed payment.
- The appeal of Kerala Water Authority was allowed.
- The appeal of T.I. Raju was dismissed.
- The High Court order granting interest was set aside.

Significance Of The Judgment

1. Contractual Terms Prevail

The judgment strongly reiterates that in commercial and contractual disputes, courts will ordinarily enforce clear and unambiguous contractual clauses agreed upon by the parties. Where the terms of the agreement expressly define rights and liabilities, including exclusions of interest, the courts will respect such autonomy and refrain from rewriting the contract under equitable considerations.

2. Limited Scope of Statutory Intervention

The ruling clarifies that statutory provisions such as the Interest Act, 1978 cannot be invoked to override or negate express contractual prohibitions. The Act operates only in the absence of a governing contractual term and does not empower courts to grant relief that directly contradicts the agreement voluntarily entered into by the parties.

3. Protection of Public Projects

The decision acknowledges the practical realities of public infrastructure projects, where work may commence in anticipation of budget allocations to serve larger public interests. By upholding the contractual clause, the Court recognized the financial and administrative constraints within which public authorities function.

4. Government Contracts and Risk Allocation

The judgment underscores that contractors entering into government agreements must carefully assess and account for contractual risks, including the possibility of delayed payments due to budgetary processes. Such risks form part of commercial decision-making and must be appropriately priced at the time of bidding rather than litigated later.

Conclusion

Judicial restraint with respect to the doctrine of freedom of contract and commercial disputes is affirmed in the Supreme Court's ruling. The Court has clarified the situation for government contracts in India by ruling that a statutory provision cannot override an express contractual bar on interest. After all, contracts, if performed knowingly and voluntarily, must be honored in both letter and spirit.

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