

Himachal Pradesh Nagar Vikas Pradhikaran

Vs

Aggarwal & Co.

Civil Appeal No. 635 of 1997

(K. Ramaswamy, G. T. Nanavati JJ)

27.01.1997

ORDER

1. Leave granted.

2. This appeal by special leave arises from the judgment and order dated 2-5-1996 of the Himachal Pradesh High Court passed in OMP No. 626 of 1993 in Ex. P. No. 27 of 1993. The admitted facts are that the respondent had entered into an agreement with the appellant to execute certain works pursuant to which there was a dispute which was referred to the Arbitrator, on directions of the High Court. The Arbitrator in the award dated 25-4-1992 stated as under :

"After considering the whole matter submitted to me by both the parties, both verbally and in writing I have come to this conclusion that delay lies on the part of the respondent-Executive Engineer. It is awarded that the plaintiffs shall be paid by the respondent Executive Engineer an increase of 25% over and above their tendered rates for all works executed by them after the stipulated date of completion i.e. 21-5-1989."

3. The award was made rule of the court. In implementation of the award, the appellant worked out the details, as mentioned in the letter No. SDA (D)-Acctt-7/93-644-47 dated 12-11-1993 which reads as under :

"With reference to your letter No. AV/SIM/804-93-44 dated 5-10-1993, I am enclosing herewith a cheque bearing No. 807801 dated 12-11-1993 amounting to Rs. 4,99,307 on account of payment of award announced by the Director which has been made as rule of court by the Hon'ble H.P. High Court. The details of the awarded amounts and recoveries due to be made from you are as under :

#Gross amount of the work done after (Rs.) 11th R/A Bill i.e. after 21-5-1989 onwards up to 26th R/A Bill 69,78,354.00 Less cost of material i.e. Cement/Steel supplied by the SDA on which there has been no increase in the issue rates. (-) 23,25,685.00 -----
-----Net amount 46,52,669.00 25% increase on Rs. 46,52,669 as awarded by the Arbitrator. 11,63,167.00 Less 2% I. = Tax on 23,263 on Rs. 11,63,167 12% S.C. on I. Tax Rs. 2792.00 (-) 26,055.00 ----- Total Rs. 26,055.00
11,37,112.00 Withheld on account of recoveries due to be made from you against agreement No. 52 of 1987-88 (-) 6,37,805.00 ----- Net payable 4,99,307.00 Please send stamped receipt. Yours faithfully, [Executive Engineer (D)], Shimla Development Authority, Kasumpti, Shimla - 9."##

4. It is seen from the contents of the letter that the appellant has deducted only the cost of the material, i.e., cement and steel supplied by the SDA on which there has been no increase in the issue rates. After working out of the details, a sum of Rs. 4,99,307 became due to the respondent. The Appellant calculated the amount actually due and payable to the respondent of under the award less the income tax and surcharge etc. and the balance amount came to be paid. But when the respondent claimed a further sum of Rs. 5,81,421, the appellant objected thereto under Section 47 of the CPC. The High Court overruled the objection and directed payment thereof. Thus, this appeal by special leave.

5. It is submitted by Shri H. K. Puri, learned counsel for the appellant that the enhancement of 25% is relatable to the tendered rates for the works executed by the respondent and does not relate to the rates of raw materials supplied by the appellant. He also submitted that cement and steel were supplied by the Department at the scheduled rates in spite of the delay in execution of the contract. Thus, due to escalation in the price of raw materials supplied by the appellant the entire burden was borne by the appellant and, therefore, no extra payment could have been intended to be made under the award in respect of those items. Therefore, the High Court was not right in directing payment thereof. We find force in the contention. It is contended by Shri. Upadhyay, learned counsel for the respondent, that when the Arbitrator recorded a finding that delay in execution was on account of the laches on the part of the Executive Engineer and awarded 25% more than the agreed normal rate, as per the contract and the award having been allowed to become final, it is not open to the appellant to deny 25% escalation charges for the period. In other words, it amounts to interference with the award which has attained finality. In support thereof, the learned counsel relied upon para 12 of the judgment in P. M. Paul v. Union of India (1989 Supp (1) SCC 368). Therein, the question was whether the contractor was entitled to escalated rates due to delay in execution of the award on the part of the Department. As seen, there is no dispute on the proposition that when the award has been made awarding escalation charges, necessarily the increased rates of the cost of securing the material for performance of the contract are required to be compensated by paying the amount to the extent of the escalated charges. It is seen that under clause 10 of the contract, the appellant was required to supply the material at the rates prevailing as on the date of the execution and it was entitled to deduct the same from the amounts payable after the execution of the contract. In other words, when the iron and cement were supplied, during the relevant period, even after the expiry of the year for which the award came to be made, necessarily it included the increase in rates. It is stated that they did not charge increased rates but the rates prevailing as on the dates and the amount worked out came to Rs. 23,25,785. The respondent is not entitled to 25% of the escalated costs in that behalf. The very object of awarding escalated cost was that the contractor had secured the material from the open market at the price prevailing at the relevant time and used the same for execution of the work. In view of the fact that iron and cement were not procured by the respondent during the extended time and actual price for which they were supplied has been worked out, as detailed earlier, the respondent is not entitled to 25% more on that material supplied by the Department itself. Under these circumstances, the High Court was clearly in error in directing payment of the said amount.

6. The appeal is, accordingly, allowed but in the circumstances without costs.