

State of U.P.

Vs

Harish Chandra and Co.

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State of U.P.

Civil Appeals No. 7643 of 1995

(S. B Majmudar, S.Saghir Ahmed JJ)

11.11.1998

JUDGMENT

MAJMUDAR, J. -

1. Leave granted in SLP (C) No. 6307 of 1995.
2. We have heard learned Senior Counsel for the parties in these two appeals.
3. Both these appeals by special leave arise out of one and the same judgment rendered by the High Court of Judicature at Allahabad.
4. In Civil Appeal No. 7643 of 1995, the appellant-State of U.P. has brought in challenge the aforesaid order of the High Court dismissing its appeal against the award decree passed by the learned trial Judge subject to a slight modification in favour of the appellant-State to which we will make a reference while considering the cross-appeal arising out of SLP (C) No. 6307 of 1995. The cross-appeal is filed by the respondent, Harish Chandra & Co. in Civil Appeal No. 7643 of 1995 who has felt aggrieved by the modification regarding rate of interest as ordered by the High Court in the impugned judgment to the extent it reduced interest from 15 per cent per annum as awarded by the trial court from the date of decree till payment to 6 per cent.
5. A few facts leading to the controversy in question may be stated at the outset. On 26-10-1979, an agreement was entered into between the Superintending Engineer, Irrigation Construction Circle, Dehradun on behalf of the appellant-State on the one hand and M/s Harish Chandra & Co., New Delhi (respondent herein) on the other. The work entrusted to the respondent-contractor was for excavation of Khara Power Channel from KM 8 to KM 9.8 and also the construction of drainage crossings at Chhoti Lui at KM 9.2 and Bari Lui at KM 9.6. The work was to be started on 1-12-1979 and was to be completed latest by 31-5-1982. It is the case of the appellant-State that the respondent-contractor did not complete the work within the specified time, that is, by 31-5-1982. Time was extended and still he did not complete and left the work incomplete on 31-5-1986. That required the State to get the work completed through other agencies which resulted in incurring of additional costs by the State in completing the said work. Disputes arose between the parties in

connection with the work which was carried on by the respondent before the aforesaid date, i.e., 31-5-1986. It appears that the respondent issued a letter dated 16-11-1983 regarding various claims put forward in the said letter and seeking arbitration of the said disputes as per the clause contained in the Special Conditions of the Contract. The Chief Engineer, Yamuna Valley Projects, Irrigation Department, Dehradun responded to the said letter of the respondent and referred Claims 1, 2, 4 to 8, 13, 15 and 16 contained in the claimant's aforesaid letter for arbitration to the sole arbitrator, Chief Engineer, Irrigation Department of the State. After hearing the parties, the arbitrator rendered his award dated 24-2-1992. The arbitrator awarded interest on the amounts found due by him to the respondent at the rate of 15 per cent from 16-11-1983, that is, the date on which the claimant had sought for reference, to 5-1-1988 on different items. Interest pendente lite was also allowed at 15 per cent and 6 per cent interest was allowed on the amounts found due from the date of the award to the date of actual payment or date of decree, whichever was earlier. The said award was sought to be made the rule of the court by the respondent. The appellant-State raised various objections to the award being made the rule of the court. The learned trial Judge/Civil Judge, Dehradun, after bearing the parties, by order dated 11-3-1993 made the award the rule of the court and further directed that the claimant shall be entitled to get the ordinary interest of 15.5 per cent per annum on the amount of award with effect from the date of the order up to the satisfaction of the decree. It is this decree passed by the trial court that resulted into an appeal by the appellant-State before the High Court which came to be disposed of by the impugned judgment.

6. Learned Senior Counsel for the appellant-State, Shri Avadh Behari Rohtagi, in support of the appeal vehemently submitted that the arbitrator had no power to grant interest prior to the reference in view of clause 1.9 of the Special Conditions of the Contract which clearly prohibited granting of such interest. He also submitted that the two claims which were granted by the arbitrator regarding hard rock-cutting were also not sustainable on the evidence on record. In the cross-appeal, it was submitted by learned Senior Counsel, Shri Harish N. Salve while supporting the main part of the judgment under appeal that the High Court had committed a patent error in reducing the rate of interest from 15.5 per cent to 6 per cent from the date of the trial court's order till satisfaction of the decree. He further submitted that interpretation of clause 1.9 by the arbitrator could not have been made the subject-matter of objections under Section 30 of the Arbitration Act, 1940.

7. In view of the aforesaid rival contentions, the following points arise for our determination :

- (1) Whether the award of interest prior to the date of the reference was within the power and jurisdiction of the arbitrator ?
- (2) Even if it was within the jurisdiction of the arbitrator, whether clause 1.9 barred such consideration ?
- (3) Whether such an objection could have been raised before the court in objections under Section 30 of the Act ?
- (4) Whether the reduction of interest from 15.5 per cent to 6 per cent from the date of the decree till satisfaction of the decree as ordered by the High Court was justified ?

Point 1

8. So far as this point is concerned, we may note a decision of a three-Judge Bench of this Court in *State of Orissa v. B. N. Agarwalla* [(1997) 2 SCC 469] which has clearly ruled in the light of the

earlier Constitution Bench judgment of this Court in *Secy., Irrigation Deptt., Govt. of Orissa v. G. C. Roy* [(1992) 1 SCC 508] that the claim for interest even for the pre-reference period was also within the power and authority of the arbitrator after the Interest Act, 1978. It is also not in dispute between the parties that in the present cases, the cause of action for reference arose after the coming into force of the Interest Act, 1978. Consequently, it cannot be effectively urged by the learned Senior Counsel for the appellant-State that the arbitrator had no power to grant such pre-reference period interest. The first point is, therefore, answered in the affirmative.

Points 2 and 3

9. However, it was vehemently contended that even if the arbitrator had power to award interest for pre-reference period, clause 1.9 prohibited the consideration of such claim by the arbitrator. Now it must be kept in view that the arbitrator has interpreted clause 1.9 and has rejected the contention that the claim of interest would not survive by virtue of the said clause. Shri Salve submitted that once the arbitrator has so decided, it was within his jurisdiction to decide one way or the other and when the question of interest itself was a subject-matter of dispute referred to him, it was for the arbitrator to decide that question and that could not have been made the subject-matter of any objection under Section 30 of the Arbitration Act. It is not necessary for us to closely examine this contention of Shri Salve for the simple reason that when we turn to the clause itself, we find that even on merits, learned counsel for the appellant-State cannot effectively support his contention in the light of the said clause. The reason is obvious. The said clause reads as under :

"1.9. No claim for delayed payment due to dispute etc. - No claim for interest or damages will be entertained by the Government with respect to any moneys or balances which may be lying with the Government owing to any dispute, difference; or misunderstanding between the Engineer-in-Charge in marking periodical or final payments or in any other respect whatsoever."

10. A mere look at the clause shows that the claim for interest by way of damages was not to be entertained against the Government with respect to only a specified type of amount, namely, any moneys or balances which may be lying with the Government owing to any dispute, difference between the Engineer-in-Charge and the contractor; or misunderstanding between the Engineer-in-Charge and the contractor in marking periodical or final payments or in any other respect whatsoever. The words "or in any other respect whatsoever" also referred to the dispute pertaining to the moneys or balances which may be lying with the Government pursuant to the agreement meaning thereby security deposit or retention money or any other amount which might have been with the Government and refund of which might have been withheld by the Government. The claim for damages or claim for payment for the work done and which was not paid for would not obviously cover any money which may be said to be lying with the Government. Consequently, on the express language of this clause, there is no prohibition which could be culled out against the respondent-contractor that he could not raise the claim for interest by way of damages before the arbitrator on the relevant items placed for adjudication. In fact, similar contention has been repelled by the aforesaid decision of the three-Judge Bench of this Court in paras 24 and 25 of the Report. It has been clearly observed in para 25 of the Report that under clause 4 which was pressed into service, no interest was payable on the amount withheld. The claim which was made in that case by Durga Parshad before the arbitrator was for the non-payment of the full amount as per final bill submitted by him and the interest so awarded on the said amount was clearly not covered by clause 4 of the contract. Similar is the fact situation in the present case and the wording of the clause in question is also of an identical nature. Therefore, the contention of learned Senior Counsel for the

appellant-State that clause 1.9 barred the consideration of such a claim for interest cannot be sustained. The High Court, therefore, rightly came to the conclusion that that clause was not a bar to such a claim. Further contention of learned Senior Counsel for the appellant that the claims regarding cutting of hard rock were wrongly granted, cannot be made the subject-matter of an objection under Section 30 of the Arbitration Act which could have been agitated for getting any reduction of the amount as awarded by the arbitrator. It was a question purely on the merits of the award which could not be agitated in objections as they were not in the nature of an appeal against the award before the court below. Civil Appeal No. 7643 of 1995 is disposed of accordingly.

Point 4

11. In the cross-appeal being civil appeal arising out of Special Leave Petition (Civil) No. 6307 of 1995, learned Senior Counsel for the respondent-State vehemently submitted that as per Section 24 of the U.P. Civil Laws (Reforms and Amendment) Act, 1976, para 7-A was inserted in the First Schedule to the Arbitration Act, 1940 which barred the power of the arbitrator in granting more than 6 per cent interest on the awarded amount and, therefore, the High Court was justified in reducing 15.5 per cent interest to 6 per cent in the light of the said provision. The aforesaid contention of the learned counsel has to be examined in the light of what the High Court stated in para 9 of the impugned judgment. It has observed that when the arbitrator has found interest at the rate of 6 per cent per annum to be reasonable, the trial court ought to have adopted the same rate of interest for being awarded to the contractor. In our view, the said reasoning cannot be sustained for the simple reason that even if the aforesaid para 7-A which was not pressed into service before the High Court could be resorted to, it only barred the power of the arbitrator and not of the Court. Further, it could not be said that the arbitrator had found the interest at the rate of 6 per cent per annum to be reasonable. In fact, he had no authority or power to go beyond 6 per cent interest. So far as the Court is concerned, it is in its discretion to award 15.5 per cent interest on the decretal amount from the date of the decree till satisfaction of the decree. As that was within the realm of the discretionary jurisdiction of the trial court, it could not have been set aside by the High Court in appeal. The cross-appeal will stand allowed to this extent by modifying the judgment and order of the High Court by substituting 15.5 per cent interest instead of 6 per cent interest per annum from the date of the decree till payment.

12. Consequently, Civil Appeal No. 7643 of 1995 is dismissed and the civil appeal arising out of Special Leave Petition (Civil) No. 6307 of 1995 is allowed to the aforesaid limited extent. In the net result, the impugned judgment of the High Court is modified to the extent indicated and the order of the trial court will stand wholly confirmed. In the facts and circumstances of the present case, there will be no order as to costs.

13. Interim orders will stand vacated. The security furnished by the respondent-contractor in compliance with the earlier interim order will stand discharged.