



KINGS & ALLIANCE LLP
LAW FIRM



www.knallp.com



info@knallp.com



+91 981 981 5818

Courts Can Now Award Higher Interest in Commercial Deals: India's Apex Court Boosts Fairness



© Kings & Alliance LLP, 2025

Introduction

In a significant judgment, **I.K. Merchants Pvt. Ltd. & Ors. versus The State of Rajasthan & Ors.**¹, a bench comprising **Justices JB Pardiwala** and **R Mahadevan** of the Supreme Court of India delivered a crucial verdict clarifying the scope of courts' power to award interest in commercial transactions. The ruling, delivered on Tuesday, April 1, 2025, addressed the long-standing issue of the appropriate rate of interest applicable to delayed payments, particularly in the absence of any pre-existing agreement between the involved parties.

The legal genesis began in 1973 when the appellants sold their shares to the State of Rajasthan. Dissatisfied with the valuation, they initiated a civil suit in 1978 before the Calcutta High Court, seeking a fair assessment of their shares' true worth. After decades of legal proceedings, a preliminary decree was issued in 2012. Subsequently, the shares were valued at ₹640 per share, a significant increase. While the High Court upheld this enhanced valuation, it only awarded a simple interest of 5% on the delayed payment. This prompted the appellants to appeal to the Supreme Court, challenging the inadequacy of the interest rate. The Supreme Court initially remanded the matter back to the High Court for a comprehensive review of all objections regarding the share valuation. However, the High Court reaffirmed its earlier decision on the 5% interest rate, leading to the second appeal.



before the apex court.

The central issue before the Supreme Court was to determine the appropriate rate of interest payable on the significantly enhanced valuation of shares, especially given the absence of any agreement between the appellants and the State of Rajasthan concerning interest on delayed payments. The respondents attempted to argue that the share transfer was not a commercial transaction, thus limiting the court's power to award interest exceeding the 6% per annum stipulated under **Section 34 of the CPC²**.

However, the Supreme Court firmly rejected this contention. Justice Mahadevan, penning the judgment, explicitly stated that the sale of shares, by its very nature, involves trade and business interests, thereby qualifying it as a commercial transaction. This classification was pivotal, as it opened the door for the Court to exercise its discretion in awarding an interest rate that could exceed the conventional 6% ceiling outlined in Section 34 CPC.

The Court meticulously analyzed Section 34 of the CPC, highlighting its provisions concerning the grant of interest at three distinct stages of a money decree: (i) interest on the principal sum before the suit was filed, typically governed by agreements; (ii) interest on the principal amount from the date of filing the suit until the decree, where the court enjoys full discretion based on fairness, commercial usage, and equity; and (iii) interest on the total decretal amount (**principal plus pre-decree interest**) from the date of the decree until payment, generally capped at 6% per annum unless contractual terms or specific legislation dictate otherwise. Importantly, the Court underscored that in cases arising from commercial transactions, courts possess the authority to allow interest at a higher rate, especially when supported by agreements between the parties.

Even in the absence of a specific agreement on the interest rate, the Supreme Court, drawing upon established legal precedents, affirmed that courts retain the power to determine an "appropriate interest rate" by considering the totality of the facts and circumstances of the case. Furthermore, the Court clarified that the discretion extends to deciding the commencement date for the interest payment – whether from the date of filing the suit, a period prior to it, or the date of the decree, again contingent on the specific factual matrix of each case.

The judgment emphasized that while the discretion to award interest, both during the pendency of the suit (**pendente lite**) and after the decree, is well-established, its exercise must be rooted in equitable considerations. The Court cautioned against the mechanical application of interest rates or the imposition of unreasonably high rates without a justifiable rationale. Recognizing the challenge in precisely quantifying the impact of delayed payment





and inflation over the decades, the Court stressed that the awarded interest should serve as fair compensation for the claimant's "loss of use" of the funds, without becoming punitive or unduly burdensome on the judgment debtor. The guiding principle, according to the Court, should be to strike a balance between fairness and financial impact, taking into account economic prudence in the specific context of each case.

Applying these principles to the protracted dispute before it, the Supreme Court acknowledged the extraordinary delay of approximately 50 years that the appellants endured in receiving the fair value of their shares. Considering the commercial nature of the transaction, the substantial amount involved, and the fact that the financial burden ultimately fell on the government, the Court deemed it necessary to award a "reasonable interest" to achieve a just balance between the parties. Consequently, the Supreme Court modified the High Court's order. It awarded simple interest at the rate of 6% per annum on the enhanced valuation of shares from July 8, 1975 (the deemed date of default) until the date of the decree, and a higher rate of 9% per annum as post-decree interest until the date of realization. The Court directed that this interest, along with the outstanding amount of the enhanced share value (after adjusting any payments already made), be paid to the appellants within two months from the date of the judgment.

Conclusion

The Supreme Court's judgment represents a pivotal development in Indian jurisprudence concerning interest awards in commercial transactions. By definitively classifying the share transfer as a commercial transaction and asserting the courts discretion to exceed the 6% per annum interest rate prescribed by Section 34 of the CPC, the ruling provides much-needed clarity and flexibility. The Court's emphasis on equitable considerations, the "loss of use" principle, and economic prudence ensures that interest awards are not merely punitive but serve as a just reparation for delayed payments, balancing the claimant's right to fair compensation with the judgment debtor's financial viability. This landmark decision will undoubtedly guide future adjudications in commercial disputes, promoting fairness and efficiency in the resolution of delayed payment cases across India.

Citations

1. I.K. Merchants Pvt. Ltd. & Ors. versus The State of Rajasthan & Ors. 2025 INSC 418
2. Code of Civil Procedure, 1908

Expositor(s): *Adv. Archana Shukla*

