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VIJAYA BANK V. PRASHANT B NARNAWARE (MAY 14, 2025)

-MANI MUGILAN SARAVANAN

IN THE SUPREME COURT OF INDIA

CIVIL APPELLATE JURISDICTION

CIVIL APPELLATE NO. 11708 of 2016

VIJAYA BANK

...APPELLANT

VERSUS

PRASHANT B NARNAWARE

...RESPONDENT

INTRODUCTION

The appellant challenged the verdict passed by the High Court of Karnataka in the Supreme Court. The subject matter involved in this case is from the contract and the constitution of India. It's very important to know the clauses involved in the employment contract are valid and its legal consequences in the near future. In this case, sections 23 and 27 of the Indian Contract Act are interpreted by the court, and they pass their verdict.

FACTS

Narnaware is a probationary manager at vijaya bank joined in 1996 and later he applied for the post of manager after notice issued by the bank. The notice had been issued to recruit 349

officers in different grades and includes several clauses and among which in clause 9(w) stated that if respondent were to leave the post within 3 years after appointment they have to pay the penalty of 2 lakh for the loss incurred to the company due to recruitment for vacant post and delay in function of bank because of his resignation. The respondent agreed to the clauses and willingly applied for the post and got appointed in 2007. But he resigned and joined another bank within two years after appointment. According to the contract he paid the penalty amount of 2 lakhs. Later he filed a suit against appellant in high court of Karnataka under section 23 & 27 of Indian contract act of 1872 and article 14 & 19(1) of fundamental rights in constitution.¹

ISSUES

- i. Whether clause 11k of the appointment letter is a restraint of trade under section 27 of the Contract Act.
- ii. Whether it opposes public policy or public interest and so is against Section 23 of the Contract Act and Articles 14 and 19(1) of the Constitution.

PETITIONER'S ARGUMENTS

Appellant-side counsel argued that the appellant gave an open recruitment notice for the appointment of 349 officers in different grades, and he did not hide the fact that the respondent had to pay a 2 lakh penalty if they resigned within 3 years. It's also mentioned in the appointment letter, and the respondent willingly applied for the post of senior manager. Appellant had a valid reason to add such a clause in the appointment letter since they have to face loss due to the resignation of employees and re-recruitment for the vacant post. So they pleaded to overrule the verdict passed by the High Court of Karnataka.²

DEFENDENT'S ARGUMENTS

Respondent-side counsel argued that his client/respondent was compelled to sign on the dotted lines since he could have lost his career and later advancement. Respondent was not in a position to bargain in equal terms with the opposite party (Appellant). Clause 11(K) was

¹ *Vijaya Bank & Anr. v. Prashant B. Narnaware*, (2025) (S.C. India), available at <https://indiankanoon.org/doc/42763766/> (last visited July 19, 2025).

² *Vijaya Bank & Anr. v. Prashant B. Narnaware*, (2025) (S.C. India), available at <https://indiankanoon.org/doc/42763766/> (last visited July 19, 2025).

unreasonable and onerous and had no proportional measures, resulting in enrichment for the appellant bank. Hence, it also goes against public policy. At the time of his resignation, he was in a situation in which he had to comply with Clause 11(k) of the appointment and pay a penalty of 2 lakh for the bank.³

JUDGEMENT

The court dismissed the case since appellant bank did not violate fundamental right such as article 14 and article 19(1) of Indian constitution. Since it's not unreasonable, unjust, oppressive or indefinite and serve a reasonable and its serve as legitimate business interest. So the Supreme Court held the bond of indemnity under section 23, 27, and article 14/19 valid.

PRINCIPLES EVOLVED

- i. Section 23- The consideration or object of an agreement is lawful unless it is forbidden by the law or is of such nature that, if permitted, it could defeat provision of any law or is fraudulent or involves or implies injury to a person or property of another or court regards it as immoral or opposed to public policy. Every agreement of which the object or consideration is unlawful, is void⁴.
- ii. Section 27-Agreement by which any one is restrained from exercising a lawful profession, trade, business of any kind is to that extend void.⁵
- iii. Article 14-Right to equality before law and equal protection of the law⁶.
- iv. Article 19 (1)-Right to speech, expression, work, profession.⁷

CRITICAL ANALYSIS

³ *Vijaya Bank & Anr. v. Prashant B. Narnaware*, (2025) (S.C. India), available at <https://indiankanoon.org/doc/42763766/> (last visited July 19, 2025).

⁴ Avtar Singh, *Law of Contract and Specific Relief* 246 (11th ed., Eastern Book Company 2023).

⁵ Avtar Singh, *Law of Contract and Specific Relief* 279 (11th ed., Eastern Book Company 2023).

⁶ *India Const.* art. 14.

⁷ *India Const.* art. 19.

Section 27 of the Contract Act provides that every agreement that restrains a person from exercising a lawful profession, trade, or business of any kind is to that extent void⁸. But Clause 11k in the appointment letter does not restrict or restrain respondents from joining any other company. It only states that he has to pay 2 lakh for the loss incurred to the bank for re-recruitment for the post that he left. Section 23 of the Indian Contract Act states the condition in which a contract object is considered to be unlawful or when the contract is against public policy; such contracts are void.⁹

Public policy is not defined in the Indian Contract Act. It concerns public good and interest, but public interest or public good changes from time to time. Public policy, however, is not flexible. It changes or evolves from time to time. The new concept replaces the old, which was considered to be against public policy. In general, what is just and reasonable in the eyes of society varies from time to time and place to place. Civilization advancement and growth of knowledge change the concept of public good and policy. In this case the appellant bank had to use an indemnity bond to reduce premature resignation tendered by the employees. Since after liberation the current market is not monopolized by one individual or a company, even public sector undertakings like the appellant bank have to compete with several competitors, so it's not unreasonable and unjust for the appellant bank to incorporate such clauses in the appointment letter.

CONCLUSION

This case has very significant value since the verdict passed by Supreme Court enlightens about usage of section 23 & 27 of Indian contract act and article & 14 & 19(1) of Constitution of India. The judge also defined the concept of public interest or public good in this case. It's also considers the relationship between employer and employee while they enter into the contract and whether it's valid to add such clauses in contract.

REFERENCES

⁸ R.K. Bangia, *Indian Contract Act* 265 (23rd ed., Allahabad Law Agency 2021).

⁹ Avtar Singh, *Law of Contract and Specific Relief* 246 (11th ed., Eastern Book Company 2023).

1. *Vijaya Bank & Anr. v. Prashant B. Narnaware*, (2025) (S.C. India), available at <https://indiankanoon.org/doc/42763766/> (last visited July 19, 2025).
2. Avtar Singh, *Law of Contract and Specific Relief* 246 (11th ed., Eastern Book Company 2023).
3. Avtar Singh, *Law of Contract and Specific Relief* 279 (11th ed., Eastern Book Company 2023).
4. *India Const.* art. 14.