

RESERVED ON 10TH SEPTEMBER 2026

IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 14TH DAY OF OCTOBER, 2026

PRESENT

THE HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE

AND

THE HON'BLE MRS. JUSTICE K.S. HEMALEKHA

WRIT PETITION NO.19486 OF 2025 (GM-MM S)

BETWEEN:

N.S. GANESH
AGED ABOUT 55 YEARS
GPA HOLDER OF SHASHI KUMAR
FLAT NO.142, 14TH FLOOR,
PEBBLE BAY, TOWER-1,
DOLLARS COLONY,
RMV EXTENSION II STAGE,
BANGALORE NORTH-560094.

...PETITIONER

(BY SMT. ANUPARNA BORDOLOI, ADVOCATE)

AND:

1. THE STATE OF KARNATAKA
REPRESENTED BY ITS SECRETARY,
DEPARTMENT OF COMMERCE AND INDUSTRIES,
VIKAS SOUDHA,
BANGALORE-560001.
2. THE DIRECTOR
DEPARTMENT OF MINES & GEOLOGY,
KHANIJA BHAVAN,
RACE COURSE ROAD,
BANGALORE-560001.
3. THE DEPUTY DIRECTOR,
DEPARTMENT OF MINES AND GEOLOGY,

CHITRADURGA DISTRICT,
KARNATAKA-577501.

...RESPONDENTS

(BY SMT. NILOUFER AKBAR, ADDL. GOVERNMENT ADVOCATE)

THIS WRIT PETITION IS FILED UNDER ARTICLES 226 AND 227 OF THE CONSTITUTION OF INDIA PRAYING TO ISSUE A WRIT OF CERTIORARI OR ANY OTHER APPROPRIATE OR ORDER WHEREBY SETTING ASIDE THE ORDER DATED 29.03.2025 ISSUED BY THE RESPONDENT NO.3 TO EXTENT OF ARBITRARILY DEDUCTING A SUM OF RS.15,41,436/- FROM THE TOTAL AUCTION AMOUNT OF RS.2,89,05,436/- AS THE SAME IS ILLEGAL AND WITHOUT ANY AUTHORITY OF LAW (ANNEXURE-A) AND ETC.

THIS WRIT PETITION HAVING BEEN HEARD AND RESERVED FOR ORDERS, COMING ON FOR PRONOUNCEMENT THIS DAY, ORDERS WAS PRONOUNCED AS UNDER:

CORAM: HON'BLE MR. VIBHU BAKHRU ,CHIEF JUSTICE
and
HON'BLE MRS. JUSTICE K.S. HEMALEKHA

C.A.V. ORDER

(PER: HON'BLE MRS. JUSTICE K.S. HEMALEKHA)

1. The petitioner has preferred the present petition impugning the order dated 29.03.2025 [**the impugned order**] issued by respondent No.3-Deputy Director, Department of Mines and Geology [**DMG**] Chitradurga, insofar as it declines to refund the entire amount deposited pursuant to the public auction of iron ore, by deducting a sum of ₹ 15,41,436, comprising ₹ 5,57,436 towards income tax and ₹ 9,84,000 towards Value Added Tax [**VAT**] from refundable amount of ₹ 2,89,05,436. Petitioner also seeks interest

at the rate of 18% towards the deposited auction amount of ₹ 2,89,05,436 by considering his representation dated 04.06.2025.

PREFATORY FACTS

2. The facts necessary for adjudication of the present petition, shorn of unnecessary details are as follows :

3. Pursuant to the permission accorded by the Government of Karnataka vide Government Order on 09.08.2006, DMG issued an auction notice dated 22.08.2006 for sale “on as is where is basis”, of approximately 20,000 metric tonnes [**MT**] of old iron ore dumps stated to be lying in Sy.No.38 of Doddabyaladakere Village, Hosadurga Taluk, Chitradurga District [**the subject site**]. The auction was held on 23.08.2006 and Sri Shashi Kumar [**the auction purchaser**] was declared the highest bidder for ₹ 2,46,00,000. Pursuant thereto, an initial sum of ₹ 61,50,000 representing 25% of the bid amount, was deposited on 26.08.2006.

4. The auction thereafter became subject matter of several proceedings before this Court. Upon conclusion of the proceedings which had initially impeded further action pursuant to the auction, the auction purchaser expressed his readiness to pay the balance consideration and sought permission to lift and transport the ore.

On being called upon by the authorities, the balance bid amount was remitted on 16.06.2010 together with royalty and amounts demanded towards income tax and VAT. Thus, an aggregate amount of ₹ 2,89,05,436 comprising the bid amount, royalty and taxes stood paid pursuant to the auction. The amounts of ₹ 5,57,436 towards income tax and ₹ 9,84,000 towards VAT were remitted through demand drafts drawn in favour of the respective tax authorities and forwarded to them by the DMG.

5. Despite receipt of the entire amount, the auction purchaser was not permitted to lift the ore. Upon inspection, the Deputy Director, DMG, Chitradurga (respondent No.3) in his inspection report dated 15.02.2013, recorded that the area was thickly overgrown and that no traces of previous mining were found. This was followed by a report dated 25.04.2013 of the Joint Director, North Zone, which, *inter alia* recorded that the 20,000 MT of iron ore forming the subject matter of the auction was nowhere found or seen at the site, and that a decision was required to be taken regarding refund of the amount deposited by the bidder.

6. The request for issuance of Mineral Dispatch Permits [**MDPs**] nevertheless came to be declined and the matter was carried through further proceedings. Ultimately in W.P No.2184/2017, while

declining to interfere with the earlier endorsement and the claim for compensation at the prevailing value of the ore, this Court reserved liberty to the auction purchaser to make representation seeking refund of the bid amount, royalty and taxes. Pursuant thereto, representations were submitted seeking refund of ₹ 2,89,05,436 together with interest.

7. As the representations remained undecided, the auction purchaser again approached this Court in W.P No.12671/2023 (GM-MM-S). This Court directed the competent authority to consider the representation dated 06.06.2023 and take a decision thereon. Pursuant to the said direction, the claim underwent consideration at different levels of the department and the State Government. The DMG recommended refund of the amount deposited by the auction purchaser on 19.03.2024. Significantly, the law department also opined that the auction purchaser was entitled to refund of ₹ 2,89,05,436 comprising the bid amount, royalty and other taxes together with interest at the admissible bank rate on the respective amounts from the date of their deposits.

8. The Government thereafter accorded concurrence for refund of ₹ 2,89,05,436. In the interregnum, the auction purchaser died

and upon the necessary authorisation and indemnity bond being furnished, the DMG passed the impugned order dated 29.03.2025. However, instead of refunding the entire amount, DMG deducted ₹15,41,436 comprising of ₹ 5,57,436 towards income tax and ₹9,84,000 towards VAT and directed refund of the balance of ₹2,73,64,000. The said amount was paid on 31.03.2025. The petitioner thereafter submitted a representation dated 04.06.2025 seeking refund of the balance of ₹ 15,41,436 together with interest at 18%. During the pendency of the present petition, DMG has addressed the income tax and the commercial tax authorities seeking refund of the respective amounts. The commercial tax authorities have initiated proceedings for refund of the VAT component on the premise that no taxable event has occurred, while the income tax component continues to remain unpaid. It is in these circumstances, the petitioner seeks refund of the balance amount together with interest on the amounts which remained with the respondents.

SUBMISSIONS OF THE PARTIES

9. Learned counsel appearing for the petitioner submits that the auction purchaser had paid the entire amount demanded by the respondents aggregating to ₹ 2,89,05,436. However, the

respondents' subsequent inspection reports disclosed that 20,000 MT of iron ore forming subject matter of auction was not available at the subject site. It is therefore contended that deduction of ₹ 15,41,436 comprising ₹ 5,57,436 towards income tax and ₹ 9,84,000 towards VAT from the amount admittedly refundable to the auction purchaser is wholly without authority of law. Learned counsel submits that no sale, delivery or transfer of goods having taken place, the transaction never fructified and no taxable event occurred. Consequently retention of the amounts towards tax is impermissible. It is further submitted that the impugned order is non-speaking, as it neither assigns any reason for such deduction nor identifies any statutory provision authorising it.

10. Insofar as interest is concerned, learned counsel places considerable reliance on the opinion of the law department dated 27.06.2024, which recommended refund together with interest at admissible bank rate from the respective dates of deposit. It is submitted that the auction purchaser, having remitted the amount upon being called upon to do so and on the assurance that the requisite permits would thereafter be issued, cannot be deprived of compensation for the prolonged retention by the State of an aggregate sum of ₹ 2,89,05,436, particularly when the auction

purchaser did not receive the iron ore for which the amount has been paid. The State is, therefore, bound to compensate the auction purchaser for the deprivation and loss of use of his money. Accordingly, interest at the rate of 18% is sought.

11. Smt. Niloufer Akbar, the learned Additional Government Advocate, submits that the amount of ₹ 5,57,436 towards income tax and ₹ 9,84,000 towards VAT were remitted by demand drafts drawn by petitioner himself in favour of the respective income tax and commercial tax authorities and were merely forwarded by the DMG to those authorities. The said amounts were therefore, never credited to the account of the DMG and the DMG could refund only the amount standing to its credit. It is submitted that the respondents have subsequently taken up the matter with the respective tax departments for refund of those amounts and the commercial tax department has already initiated proceedings for refund of the VAT component. It is further submitted that ₹ 2,73,64,000 had already been refunded in the manner specifically requested by the petitioner under the indemnity bond dated 25.03.2025 and therefore the impugned order does not warrant any interference.

12. As regards the claim for interest, the learned Additional Government Advocate contends that the claim of interest at 18% p.a. has been negated in the earlier proceedings and that the endorsements dated 21.05.2013 and 11.08.2015 have attained finality and it is therefore submitted that the petitioner cannot reopen the said case in the present proceedings.

REASONS AND CONCLUSIONS

13. It is not in dispute that the auction purchaser had deposited an aggregate sum of ₹ 2,89,05,436 pursuant to the auction. The transaction, however, did not fructify and the auction purchaser was not permitted to lift the iron ore. In the earlier round of litigation, liberty was reserved to seek refund of the amounts deposited. The auction purchaser thereafter approached this Court in W.P No.12671/2023 seeking consideration of his representation. This Court noticed that the request for issuance of permit made in the representation dated 23.05.2023 had already been turned down by an endorsement, which stood confirmed by the order dated 23.11.2020 in W.P.No.2184/2017, and, the petitioner not pressing the said representation, confined the direction to consideration of the subsequent representation dated 06.06.2023.

14. Pursuant to the said direction, the matter was processed at the departmental and governmental levels. On 07/09.10.2023 it was indicated that the decision in the matter was required to be taken at a higher level of the Government and the relevant proposal and material were accordingly forwarded. This was followed by a legal notice dated 27.11.2023 issued on behalf of the auction purchaser, and a hearing notice dated 11.12.2023 fixing a hearing before the Secretary on 20.12.2023 concerning refund of the amount deposited by the auction purchaser. Respondent No.2, by communication dated 19.03.2024 recommended refund of ₹ 2,89,05,436. The legal consultant also opined that the amount deposited by the auction purchaser was liable to be refunded. More importantly, the Additional Secretary, Department of Law, Justice and Human Rights, with approval of the Principal Law Secretary by opinion dated 27.06.2024 recommended refund of the amount together with interest at the admissible bank rate on the respective deposits. Thus, the entitlement to refund was ultimately not in dispute. Even the entitlement of interest found express recognition in the opinion of the law department. Pursuant to the subsequent concurrence of the Finance Department and the Government, the DMG passed the impugned order and a sum of ₹ 2,73,64,000 was

refunded on 31.03.2025. What remained unpaid was ₹ 15,41,436 representing ₹ 5,57,436 towards income tax and ₹ 9,84,000 towards VAT. The mere fact that these two amounts have been forwarded by the DMG to the respective tax departments cannot prejudice the auction purchaser. The amounts were paid only because they formed part of the demand raised pursuant to the auction transaction. Once the transaction itself did not fructify and the respondents accepted that the auction purchaser was entitled to refund of the entire amount, inter-departmental remittance or adjustment cannot be a ground to deny refund to the person who had made the payment. Therefore, there remained no justification for the State to retain the amount paid pursuant to such transaction. Continued retention of money without corresponding consideration and without compensating the auction purchaser for being deprived of his dues, would result in the State retaining a benefit to which it was not entitled and would attract the principle of restitution and unjust enrichment.

15. The principles governing award of interest in circumstances such as the present one are no longer *res integra*. **In Dr. Poornima Advani and Another vs Government of NCT and Another¹**, the

¹ Civil Appeal No.2643/2025 2025 INSC 262

Supreme Court considered the principles of restitution and unjust enrichment in the context of money collected and retained by the State and held that the interest is not a penalty but the normal accretion on capital and is compensatory in nature. A person deprived of the use of money legitimately due to him is entitled to be compensated for such deprivation. The Supreme Court observed that the absence of any express statutory provision for payment of interest does not justify the State's retaining another's money without compensating them. Thus, the question that remains is whether the petitioner is entitled to interest and if so, for what period and at what rate?

16. It cannot be overlooked that the auction purchaser had parted with a substantial amount pursuant to the auction conducted by the State. Despite such payment, the auction purchaser did not receive the iron ore which formed the subject matter of auction. Thereafter, notwithstanding successive representations and orders of this Court requiring consideration of his claim for refund, the money continued to remain with the State and its instrumentalities. The petitioner was thus deprived of the use of money legitimately due to be refunded to the auction purchaser. The contention of the respondents that there is no contractual provision, providing for

interest does not conclude the issue. The claim is not upon a contractual stipulation, it is on a principle that a person who is deprived of the use of money which ought to have been returned to him is required to be appropriately compensated for such deprivation. As stated above, the decision by the Supreme Court in **Dr. Poornima Advani** (*supra*) is apposite. There, the appellants had purchased an e-stamp paper of ₹ 28,10,000. The stamp paper was lost and as the fresh stamp paper was purchased for completing the transaction, their application for refund of the said amount towards the first stamp paper was rejected. The learned Single Judge directed refund of the principal amount, holding that the taxing event had not occurred and that continued retention of the amount by State was impermissible. The same came to be confirmed by the Division Bench. However, the interest was not ordered. The Supreme Court held that the contention that the interest could not be awarded in the absence of any statutory provision was without merit. Further, it was observed that the interest is not a penalty nor a punishment, but a normal accretion on capital. When a person is deprived of the use of money to which he is legitimately entitled, he has a right to be compensated for such deprivation whether such compensation is described as interest, compensation or damages.

17. The Supreme Court further observed that where the doctrine of restitution is attracted, interest should follow. It referred to **Hari Chand vs State of UP**², the judgment of the Allahabad High Court, where it was dealing with a similar controversy in a stamp matter and had held that the payment of interest is a necessary corollary to the retention of money to be returned under the order of the appellate court or revisional authority and where an interest at the rate of 8% per annum was directed for the period during which the money remained with the State. The Supreme Court also referred to the decision in **ONGC Ltd. vs Commissioner of Customs, Mumbai**³ where the court had explained the principles of restitution. The Supreme Court observed at para No.27 as under:

“27. In the case of O.N.G.C. Ltd. v. Commissioner of Customs Mumbai, JT 2007 (10) SC 76, (para 6), the facts were that the assessment orders passed in the Customs Act creating huge demands were ultimately set aside by this Court. However, during pendency of appeals, a sum of Rs. 54,72,87,536/- was realized by way of custom duties and interest thereon. In such circumstances, an application was filed before this Court to direct the respondent to pay interest on the aforesaid amount w.e.f. the date of recovery till the date of payment. The appellants relied upon the judgment in the case of South Eastern Coal Field Ltd. v. State of M.P., (2003) 8 SCC 648. This Court explained the principles of restitution in the case of O.N.G.C. Ltd. (supra) as under:-

“Appellant is a public sector undertaking.
Respondent is the Central Government. We agree

² 2012 (1) AWC 316

³ JT 2007 (10) SC 76

that in principle as also in equity the appellant is entitled to interest on the amount deposited on application of principle of restitution. In the facts and circumstances of this case and particularly having regard to the fact that the amount paid by the appellant has already been refunded, we direct that the amount deposited by the appellant shall carry interest at the rate of 6% per annum. Reference in this connection may be made to Pure Helium Indian (P) Ltd. v. Oil & Natural Gas Commission, JT 2003 (Suppl. 2) SC 596 and Mcdermott International Inc. v. Burn Standard Co. Ltd. JT 2006 (11) SC 376."

(Emphasis supplied)"

18. Of particular relevance is the reliance placed by the Supreme Court on the decision in **Union of India through Director of Income Tax vs Tata Chemicals Limited**⁴. The principle reiterated therein is that the money received and retained without right carries with it the right of interest. The Government cannot, merely because there is no express statutory provision providing for interest, avoid its obligation to reimburse the lawful money of a person together with interest for the period of undue retention. The Supreme Court expressly observed that legislation provides for interest on refund of tax, deemed tax or advance tax and held that it treats refund due to the assessee as a debt owed by the revenue. The relevant observations at para No.29 of **Dr. Poornima Advani** (*supra*) reads as under:

⁴ (2014) 6 SCC 335

“29. In the case of Union of India through Director of Income Tax v. Tata Chemicals Ltd., (2014) 6 SCC 335, this Court held that when the collection is illegal, the Revenue is obliged to refund such amount with interest as money so deposited was retained and enjoyed by it. No discrimination can be shown between the assessee and Revenue in paying interest on the refund of tax. Money received and retained without right, carries with it the right to interest. There being no express statutory provision for payment of interest on the refund of excess amount/tax collected by the Revenue, the Government cannot shrug off its apparent obligation to reimburse the deductors lawful monies with accrued interest for the period of undue retention of such monies. Obligation to refund money received and retained without right implies and carries with in the right to interest. The relevant observations are as under:-

“Providing for payment of interest in case of refund of amounts paid as tax or deemed tax or advance tax is a method now statutorily adopted by fiscal legislation to ensure that the aforesaid amount of tax which has been duly paid in prescribed time and provisions in that behalf form part of the recovery machinery provided in a taxing Statute. Refund due and payable to the assessee is debt-owed and payable by the Revenue. The Government, there being no express statutory provision for payment of interest on the refund of excess amount/tax collected by the Revenue, cannot shrug off its apparent obligation to reimburse the deductors lawful monies with the accrued interest for the period of undue retention of such monies. The State having received the money without right and having retained and used it, is bound to make the party good, just as an individual would be under like circumstances. The obligation to refund money received and retained without right implies and carries with it the right to interest. Whenever money has been received by a party which ex ae quo et bono ought to be refunded, the right to interest follows, as a matter of course.”

(Emphasis supplied)

19. The Supreme Court in **Dr. Poornima Advani** (*supra*) awarded interest at 8% per annum on the entire amount from 20.08.2018, the date of the judgment of the learned Single Judge recognizing the entitlement to refund till 29.02.2020, when part payment was received, and thereafter on the balance amount.

20. The principle enunciated therein squarely applies to the present case. In the present facts, the representation of the petitioner underwent consideration at different levels of the Government. The DMG, by communication dated 19.03.2024, recommended refund of ₹ 2,89,05,436 *albeit* without interest, and by communication dated 06.06.2024, clarified in response to the queries raised by the Finance Department that the auction conditions contained no provisions for penalising the auction purchaser and that no loss of revenue had been caused to the State. The translation of the relevant communication dated 19.03.2024 reads as under:

“On this background, when the legal section opinion was sought, the Legal Consultant have given the opinion as hereunder (the legal opinion report copy is attached).

11. Looking into the entire file I am of the opinion that as a prudent man the State Government is bound to return the amount deposited by G.P.Shashikumar without interest. There is no fault on the part of State Government in performing its duty and delay was caused due to non deposit of auction amount by applicant in time, so the State Government is not liable

to pay interest on deposited amount as claimed by the applicant. State Government is not benefited out of the deposited amount. In view of the same the State Government may refund the deposited amount to Sri.G.P.Shashikumar without interest.

While in consonance with the legal opinion for the repayment of the bid amount of Rs.2,89,05,436/- to the bidder (without interest) it is opined action can be taken. And the same material factors is brought to the Government's further action."

21. The relevant translated extract of the note sheet of the Department of Commerce and Industries (Mines) recorded upon receipt of the said communication dated 06.06.2024 reads as under :

"Note 59) U/S (Mines 1)

As described in the paragraph 56-49 n/f, Chitradurga District Hosadurga Taluk, Doddabyaladakere village in survey No.38 about 20,000 MT of old dumps iron ore open auction bid amount Rs.2,73,64,000 (total amount Rs.2,89,05,436 out of this excepting the tax amount Rs.15,41,436 Rs.2,73,64,000/- to refund to the bidder, as stated by the finance department in paragraph 57(5)th point after obtaining the opinion from the Legal Department, can send the file to the Finance Department for concurrence."

22. Of particular significance is the opinion dated 27.06.2024 of the Department of Law, Justice and Human Rights. With the approval of the Principal Law Secretary it opined as under :

"74) Though, the representations were made by the auction purchaser, the department has not acted upon the said representations. Therefore he filed another Writ Petition where in, a direction was given to the department to consider only the representations dated 06.06.2023.

75) In the representation dated 06.06.2023, he has sought for the refund of the entire amount of Rs.2,89,05,436/- with royalty and other taxes paid by him along with interest. In one such case of Ms. Chitrakuta Steels and Power Pvt Ltd., the very department of Commerce and Industries, on 12.06.2019, has ordered to refund the bid amount with interest as per GO No:gabhue/kaa.sha/ccc.1332/2018/ccc.1332/2018/baddima paa/2019-20, dated: 12.06.2019 (enclosed).

76) Therefore, in this case also and in the interest of justice and on a parity ground, the auction purchaser is also entitled to refund of Rs. 2,89,05,436/- with royalty and /152/MMM/2020 other taxes paid by him along with the interest, since the permit was cancelled for the reasons best known to the department concerned. As such, he is entitled to refund of the admissible Bank rate of interest on the amount of Rs. 61,50,000/- and Rs. 2,27,55,436/- respectively as on the dates of deposits of the bid amounts. This is the opinion of Law Department.”

23. It opined that on parity with the refund with interest granted in the case of Ms. Chitrakuta Steels and Power Pvt. Ltd., the auction purchaser was entitled to refund of the amount deposited by him including royalty and taxes together with interest at the admissible bank rate from the respective dates of deposit. Thus, the State's own law department specifically recognised not only the entitlement to refund but also the claim for interest and a period for which such interest ought to run.

24. The Finance Department thereafter accorded concurrence on 17.08.2024 for refund of ₹ 2,89,05,436. Its concurrence was

silent as regards interest. The translation of the relevant portion reads as under :

“The proposal with the department opinion is examined the finance department opines as below:

1. For refund of the Bid Amount which is bidden in the Open Auction for the Iron Ore in survey No.38, Doddabyaladakere village, Hosadurga Taluk, Chitradurga District the finance department have given its concurrence.

2. As the bid remitted amount is remitted the Mines and Geology Department Head of account 0853.00.102.1.02.000 and only the said amount Rs.2,89,05,436/- only subject to the conditions of the process complying as per order No.FD 35 TAR 2019 dated 16.10.2019 to refund from the Head of Account, the concurrence is given from the Finance Department.

(Approved from Secretary to Govt. Finance Department)”

25. The concurrence was communicated by respondent No.1 on 27.09.2024. The auction purchaser having died in December 2024, his mother appointed the petitioner as her General Power of Attorney [**GPA**] Holder. Upon an indemnity bond dated 25.03.2025 being furnished, the DMG passed the impugned order dated 29.03.2025 directing refund of ₹ 2,73,64,000 after deducting ₹ 15,41,436 comprising of ₹ 5,57,436 towards income tax and ₹ 9,84,000 towards VAT. The amount of ₹ 2,73,64,000 was thereafter refunded on 31.03.2025. The petitioner thereafter represented on 04.06.2025 seeking release of the balance ₹ 15,41,436 together

with interest. During the pendency of the present proceedings, the DMG addressed communications dated 11.03.2026 to the income tax department and commercial tax authorities seeking refund of the amount remitted to them. The commercial tax authorities have since proceeded on the premise that no taxable event has occurred and initiated steps for refund of ₹ 9,84,000, whereas no corresponding response has been received from the income tax department.

26. The next question that arises for consideration is whether the petitioner is entitled to interest on the amount which remained with the respondents and if so, the rate and period for which such interest is payable.

27. In this regard it would be apposite to refer to the decision of the Supreme Court in **Dr. Poornima Advani** (*supra*). The principles governing award of interest in the circumstances as that of the present case are no longer *res integra*. In the present case, the auction purchaser had deposited the entire amount pursuant to the auction. The consideration for which it was paid, however, was never received by him. The respondents' own subsequent reports have disclosed that the auctioned quantity of iron ore was not available at the subject site. Once the transaction did not fructify

and the respondents themselves accepted the auction purchaser's entitlement to refund, there remained no justification for the State to retain the amount paid pursuant to such transaction. Continued retention of the money without corresponding consideration and without compensating the auction purchaser for deprivation of its use would result in State retaining a benefit to which it was not entitled and would attract the principle of restitution and unjust enrichment. The principles governing awarding of interest in circumstances such as the present case are no longer *res integra*. The Supreme Court in **Dr. Poornima Advani** (*supra*) observed the principles of restitution and unjust enrichment in the context of money collected and retained by a State, held that the interest is not a penalty but a normal accretion of capital and is compensatory in character and observed at para No.16 as under :

“16. The concept of awarding interest on delayed payment has been explained by this Court in the case of Authorised Officer Karnataka Bank v. M/s R.M.S. Granites Pvt. Ltd. & Ors. in Civil Appeal No. 12294 of 2024, we quote the following observations:-

“It may be mentioned that there is misconception about interest. Interest is not a penalty or punishment at all, but it is the normal accretion on capital. For example if A had to pay B a certain amount, say ten years ago, but he offers that amount to him today, then he has pocketed the interest on the principal amount. Had A paid that amount to B ten years ago, B would have invested that amount somewhere and earned interest thereon, but instead of that A has kept that amount with himself and earned interest on it for this period. Hence

equity demands that A should not only pay back the principal amount but also the interest thereon to B. [See: Alok Shanker Pandey v. Union of India : AIR 2007 SC 1198.]”

28. It was further observed that a person deprived of the use of money legitimately due to him is entitled to be compensated for such deprivation and held at para Nos.20, 21 and 22 as under:

“20. In the case of Secretary, Irrigation Department, Government of Orissa v. G.C. Roy, (1992) 1 SCC 508, a Constitution Bench of this Court opined that a person deprived of use of money to which he is legitimately entitled has a right to be compensated for the deprivation, call it by any name. It may be called interest, compensation or damages. This is also the principle of Section 34 of the Civil Procedure Code.

21. The essence of interest as held in the case of Lord Wright in Riches v. Westminster Bank Ltd., 1947 (1) ALL ER 469, at page 472, is that it is a payment, which becomes due because the creditor has not had his money at the due date. It may be recorded either as representing the profit he might have made if he had had the use of the money, or, conversely, the loss he suffered because he had not that use.

22. In the case of Commissioner of Income Tax v. Dr. Sham Lal Narula, AIR 1963 Punjab 411, a Division Bench of the High Court of Punjab articulated the concept of interest as under:-

“The words ‘interest’ and ‘compensation’ are sometimes used interchangeably and on other occasions they have distinct connotation. “Interest” in general terms is the return or compensation for the use or retention by one person of a sum of money belonging to or owed to another. In its narrow sense, ‘interest’ is understood to mean the amount which one has contracted to pay for use of borrowed money. In whatever category “interest” in a particular case may be put, it is a consideration paid either for the use of money or for forbearance in demanding it, after it has fallen

due, and thus, it is a charge for the use or forbearance of money. In this sense, it is a compensation allowed by law or fixed by parties, or permitted by custom or usage, for use of money belonging to another, or for the delay in paying money after it has become payable."

(Emphasis supplied)"

29. Pursuant to the impugned order, a sum of ₹ 2,73,64,000 was stated to have been refunded on 31.03.2025. However, subsequent communication produced by the State records that, out of the amount sanctioned for refund, a sum of ₹ 8,00,000 remained to be released on account of K-2 process system (Annexure-R8). The same communication also refers to the amount of ₹ 5,57,436/- remitted towards income tax and seeks refund thereof from the concerned income tax authorities.

30. For the foregoing reasons, the petition is allowed in part and the following order:

- (i) The impugned order dated 29.03.2025 insofar as it withholds ₹ 15,41,436, comprising ₹ 5,57,436 towards income tax and ₹ 9,84,000 towards VAT is set aside.
- (ii) Respondent Nos.1 and 3 are directed to refund the payment of the balance sum. It shall be open to them to obtain reimbursement or adjustment of the said amounts from the respective tax department in accordance with law.

- (iii) The petitioner shall be entitled to interest at 8% per annum on ₹ 2,89,05,436 from 31.07.2023 (the date of the order in W.P No.12671/2023) until 31.03.2025.
- (iv) The respondents shall be entitled to credit, with effect from 31.03.2025 only in respect of the amount actually paid to the petitioner on that date.
- (v) From 01.04.2025, interest at 8% per annum shall be payable on ₹ 8,00,000 and ₹ 15,41,436 until the date of actual payment.
- (vi) The aforesaid amounts together with accrued interest shall be paid within a period of eight (8) weeks from date.

**Sd/-
(VIBHU BAKHRU)
CHIEF JUSTICE**

**Sd/-
(K.S. HEMALEKHA)
JUDGE**

CKL