

HR Law Hotline

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RESIGNATION AT A PRICE: SUPREME COURT ENDORSES LOCK-IN CLAUSES FOR PSUs

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- The SC's decision in the Vijaya Bank case serves as a landmark precedent for assessing the validity of lock-in clauses and liquidated damages provisions in employment contracts, particularly in the public sector context.
- This judgment confirms that lock-in clauses imposing a minimum service period, coupled with a reasonable financial consequence for premature exit, are enforceable.
- The SC clarified that such negative covenants are not violative of Section 27 of the Contract Act or the fundamental rights under Articles 14 and 19 of the Constitution, as the objective is in furtherance of the employment contract and not to restrain future employment.

With Public sector undertakings ("PSUs") increasingly facing stiff competition from its private counterparts, incorporating clauses mandating minimum service tenures and stipulating damages has been a step to retain talent and reduce attrition. These lock-in clauses restrict employees' ability to leave the organization within a specified period, otherwise requiring them to pay damages in case of early departures from the employers' organizations.

Recently, in a matter questioning the enforceability of lock-in and damages clauses, the Supreme Court's ("SC") decision in **Vijaya Bank & Anr. v. Prashant B Narnaware ("Vijaya Bank Case")** reaffirmed the enforceability of such clauses, highlighting their significance for PSUs seeking to protect their legitimate business interests.

Please click [here](#) for our detailed article.

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