

News

The employee cannot be made to stay unemployed or go back to their previous employer: Delhi High Court



According to the ruling, non-compete clauses after a contract has ended are against Section 27 of the Indian Contract Act.

According to the Delhi High Court's ruling in **Varun Tyagi v. Daffodil Software Private Limited**, workers cannot be made to choose between continuing to work for their former employer or doing nothing.

The Court emphasized that restrictive covenants in employer-employee contracts are rigidly interpreted because businesses have an advantage over employees, who frequently have to accept standard form contracts or risk being laid off. According to the ruling, non-compete clauses after a contract expires are against Section 27 of the Indian Contract Act, which forbids contracts that restrict legitimate crafts or professions.

Justice Tejas Karia held while overturning an interim order that barred a software developer from joining the government customer of his former employer,

"An employee cannot be confronted with the situation where he has to either work for the previous employer or remain idle...any terms of the employment contract that imposes a restriction on right of the employee to get employed post-termination of the contract of employment shall be void being contrary to Section 27 of the ICA."

From January 2022 to April 2025, petitioner Varun Tyagi worked as a software engineer for Daffodil Software Private Limited. Through Digital India Corporation (DIC), he mainly worked on the government's POSHAN Tracker initiative, which attempts to improve nutritional outcomes for children nationwide. He was prohibited from working with the company's "business associates" for three years following his departure due to non-compete and non-solicitation restrictions in his employment contract. On April 8, 2025, Tyagi joined DIC directly as Deputy General Manager after his notice period ended.

Citing a violation of the employment contract, Daffodil filed a lawsuit to prevent Tyagi from working for DIC and the National E-Governance Division (NeGD). On June 3, a district judge issued an interim injunction in favor of the business, prohibiting Tyagi from collaborating with NeGD and DIC.

In accordance with Section 27 of the Indian Contract Act, 1872, which declares contracts that prohibit people from engaging in legitimate trades, professions, or enterprises null and unlawful, the High Court considered the issue. Judge Karia emphasized that Indian law does not distinguish between partial and absolute trade restrictions, in contrast to English law.

"The reasonableness and whether the restraint is partial or complete is not required to be considered at all when an issue arises as to whether a particular term of contract is or is not in restraint of trade, business or profession," the Court stated.

The ruling noted that post-employment restrictions are subject to more stringent judicial examination under Indian law and cited Supreme Court precedents that differentiate between limits that are in effect while employment and those that last after termination.

The Court determined that DIC, not Daffodil Software, owned the intellectual property rights for the POSHAN Tracker project.

"Hence, the apprehension of the Respondent that confidential information or intellectual property shall be shared with DIC is misconceived as the same already belongs to DIC," it claimed.

The Court noted that Daffodil's primary function was to supply labor services rather than create proprietary technology, which disproved the software company's allegations that Tyagi held sensitive information that could be exploited.

Regarding basic employment rights, the Court ruled that workers cannot be forced to choose between staying unemployed or going back to their previous employers.

"Freedom of changing employment for improving service conditions is a vital and important right of an employee, which cannot be restricted or curtailed on the ground that the employee has employer's data and confidential information," the court ruled.

Tyagi would have more difficulty if he were barred from continuing his work with DIC, the Court said after weighing the convenience of the situation, noting that any breach of the contract might be remedied by monetary damages if it were later established.

Thus, it came to the conclusion that, in accordance with Section 27 of the Indian Contract Act, the trial court's temporary injunction was unlawful. Furthermore, notwithstanding its narrow scope, Clause 2.16 of the employment agreement, which prohibited working with business acquaintances, constituted an unlawful restraint on trade.

Advocates Asav Rajan, Ajay Sharma, Mayank Biyani, Akash Saxena, Kashish Sharma, and Devang Shrodriya represented Tyagi.

Advocates Divyakant Lahoti, Vindhya Mehra, Tanisha Verma, Raghav Saluja, and Kartik Lahoti represented Daffodil.