

**INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH "E": NEW DELHI
BEFORE SHRI SATBEER SINGH GODARA, JUDICIAL MEMBER
AND
SHRI M. BALAGANESH, ACCOUNTANT MEMBER**

**ITA No. 3665/Del/2024
(Assessment Year:) 2014-15**

Marelli Powertrain India Pvt. Ltd, Plot No. 1, Sub Plot 25 and 32, Maruti Suppliers Park, IMT Manesar, Sector-3A, Haryana (Appellant)	Vs. ACIT, Delhi	(Respondent)
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PAN: AAFCM3204N

Assessee by :	Shri Aditya Vohra, CA Shri Arpit Goyal, CA
Revenue by:	Shri Akhilesh Kumar Yadav, Sr. DR
Date of Hearing	02/12/2024
Date of pronouncement	10/12/2024

O R D E R

PER M. BALAGANESH, A. M.:

1. The appeal in ITA No.3665/Del/2024 for AY 2014-15, arises out of the order of the National Faceless Appeal Centre (NFAC), Delhi [hereinafter referred to as 'Id. NFAC', in short] in Appeal No. ITBA/NFAC/S/250/2024-25/1065906647(1) dated 21.06.2024 against the order of assessment passed u/s 143(3) of the Income-tax Act, 1961 (hereinafter referred to as 'the Act') dated 20.01.2018 by the Assessing Officer, Addl. CIT, Special Range-6, New Delhi (hereinafter referred to as 'Id. AO').
2. Though the assessee has raised several grounds, the only effective issue to be decided in this appeal is as to whether the Id NFAC was

justified in confirming the disallowance made on account of provision for warranty in the facts and circumstances of the instant case.

3. We have heard the rival submissions and perused the material available on record. The return of income for AY 2014-15 was filed electronically on 28.11.2014 declaring total income of Rs. 93,64,12,844/-. The assessee is engaged in the business of manufacturing, sale and services of engine control unit (ECU). (ECU or Engine Control Module ("ECM")) is an electronic control unit of automobile, which controls a range of actuators and variety of sensors of an automobile engine. The basic purpose of ECU is to ensure the optimization of vehicle running in terms of fuel combustion and emission including safety features. Manufacturing of ECUS Involves continuous evolving technology. ECU receives a wide range of data (input) from all the sensors and actuators of the engine system, and then analyses the data inside the micro-processor (micro- computer) with the help of multidimensional performance maps and sends signals (output) for the adjustment of engine actuators accordingly. Output of ECU helps various actuators to optimize key parameters related to air-fuel mixture, ignition timing, idle speed and torque management, in such a way that the emission of automobile remains within the stipulated standards. Prior to the usage of ECUs, the functions of air-fuel mixture, Ignition timing and idle speed were controlled and managed by mechanical and pneumatic systems such as the carburettor.

4. Based on the above , the assessee submitted that the product manufactured by it is highly technical and complex in nature. It was submitted that the assessee is required to provide 2 years warranty to its customers for the product sold to them. The assessee has a policy to maintain a provision as on the end of every financial year, an amount

equivalent to 0.5% of the sales (net of excise duty) made, which are still covered under the warranty period of two years. This percentage of 0.5% of the sales (net of excise duty) for the two years covered under the warranty is determined by the assessee on the scientific basis considering the risk involved in manufacturing and sale of ECUs. The assessee also submitted the rationale for maintaining the provision for warranty @0.5% net sales of the two years by duly considering and explaining the risk of components use; designing risk; critical manufacturing process; shorting / campaigning risk or penalty. The assessee also placed reliance on the decision of the Hon'ble Supreme Court in the case of Rotork Controls India (P) Ltd Vs. CIT (2009) 180 taxman 422 in support of its contentions, among others. The assessee explained the entire accounting entries made by it in the books in respect of provision made towards warranty during the year after taking into account the reversal of excess provision made in earlier years, if any. The Id AO however did not heed to the contentions of the assessee and proceeded to disallow the provision of warranty in the assessment, which stood confirmed by the Id CIT(A).

5. We find that the Id AR before us placed on record a table containing the entire basis of making the provision towards warranty as under:-

AY	Sales (Net of excise duty)	Two years cumulative sales	Provision required to be made as per policy	Opening Balance as on 1- Apr	Incremental provision made during the year - Expense claimed in P&L	Warranty provision utilized during the year	Closing Balance as on 31-Mar	Percentage of provision utilized
2009-10	42,29,54,932	42,29,54,932	21,14,775		21,15,567		21,15,567	-
2010-11	1,55,78,29,397	1,98,07,84,329	99,03,922	21,15,567	77,88,887	3,55,115	95,49,339	17%
2011-12	1,98,21,51,618	3,53,99,81,015	1,76,99,905	95,49,339	78,00,273	10,95,138	1,62,54,474	11%
2012-13	2,27,99,11,872	4,26,20,63,490	2,13,10,317	1,62,54,474	59,05,744	9,70,475	2,11,89,743	6%
2013-14	3,15,04,48,838	5,43,03,60,710	2,71,51,804	2,11,89,743	63,44,240	4,81,046	2,70,52,937	2%
2014-15	3,00,42,85,352	6,15,47,34,190	3,07,73,671	2,70,52,937	61,17,343	24,13,116	3,07,57,164	9%
2015-16	4,49,32,08,473	7,49,74,93,825	3,74,87,469	3,07,57,164	1,21,10,880	53,80,575	3,74,87,469	17%
2016-17	5,61,67,84,566	10,10,99,93,039	5,05,49,965	3,74,87,469	2,23,53,072	66,25,612	5,32,14,929	18%
2017-18	6,29,96,36,237	11,91,64,20,803	5,95,82,104	5,32,14,929	1,28,06,901	75,11,053	5,85,10,777	14%
2018-19	7,64,06,34,656	13,94,02,70,893	9,06,11,761	5,85,10,777	8,95,89,387	5,72,99,011	9,08,01,153	98%
2019-20	8,60,30,00,000	16,24,36,34,656	14,61,92,712	9,08,01,153	10,40,40,000	4,91,10,000	14,57,31,153	54%
2020-21	5,60,54,30,000	14,20,84,30,000	12,78,75,870	14,57,31,153	1,64,30,000	3,94,10,000	12,27,51,153	27%

6. It could not be seen from the aforesaid table there could be no dispute at all on the calculation made towards provision for warranty. The rationale and necessity for making provision for warranty vis-à-vis the products manufactured and sold by the assessee has already been explained technically by the assessee before the lower authorities, which stood uncontroverted. The accounting entries followed by the assessee for making provision towards warranty have been duly explained and we do not find any infirmity thereon. Hence, we hold that the provision for warranty has been made by the assessee on a scientific basis taking into account past trend in respect of claim of warranty. Respectfully following the decision of Hon'ble Supreme Court referred supra, we direct the Id AO to grant deduction towards provision for warranty. Accordingly, grounds raised by the assessee are hereby allowed.

7. In the result, appeal of the assessee is allowed.

Order pronounced in the open court on 10/12/2024.

-Sd/-
(SATBEER SINGH GODARA)
JUDICIAL MEMBER

-Sd/-
(M BALAGANESH)
ACCOUNTANT MEMBER

Dated:10/12/2024
A K Keot

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1. Applicant
2. Respondent
3. CIT
4. CIT (A)
5. DR:ITAT

ASSISTANT REGISTRAR
ITAT, New Delhi