

आयकर अपीलीय अधिकरण, हैदराबाद पीठ
IN THE INCOME TAX APPELLATE TRIBUNAL
Hyderabad 'A' Bench, Hyderabad

Before Shri Vijay Pal Rao, Hon'ble Vice President
and
Shri Manjunatha G., Hon'ble Accountant Member

आ.अपी.सं /ITA No.409/Hyd/2023
(निर्धारण वर्ष /Assessment Year: 2011-12)

Dr. Reddy's Laboratories Limited Hyderabad [PAN: AAACD7999Q]	Vs.	Deputy Commissioner of Income Tax Circle-8(1) Hyderabad
(Appellant)		(Respondent)
निर्धारिती द्वारा /Assessee by: Shri S.P.Chidambaram, AR		
राजस्व द्वारा /Revenue by: Shri B.Bala Krishna, CIT-DR		
सुनवाई की तारीख /Date of Hearing: 09/01/2025		
घोषणा की तारीख /Date of Pronouncement: 07/04/2025		

आदेश / ORDER

PER. MANJUNATHA G., A.M:

This appeal filed by the assessee is directed against the order dated 09.06.2023 of the learned Commissioner of Income Tax (Appeals) [Ld.CIT(A)], National Faceless Appeal Centre, Delhi, pertaining to A.Y.2011-12.

2. The assessee has raised the following grounds of appeal:

1. *“The learned CIT(A) erred both on facts and in law in confirming the additions made by the assessing officer ignoring the explanations offered and submissions made.*
2. *The learned CIT(A) erred in not passing a speaking order while confirming the additions made by the assessing officer and by simply referring to the observations made by the assessing officer. He ought to have applied his independent judgement and adjudicated the grounds judiciously.*
3. *The learned CIT(A) erred in not considering the submission of the assessee that the assessment is completed u/s 143(3) after considering all the required information submitted by the assessee during the assessment proceedings and hence no omission / failure on the part of the assessee. Accordingly, no action can be taken u/s 147 after the expiry of four years from the end of the assessment year.*
4. *The learned CIT(A) erred in issuing notice u/s 148 as no new material came into the possession of AO. All the material information was already submitted to the AO at the time of assessment u/s 143(3).*
5. *The learned CIT(A) erred in (i) ignoring the submissions of assessee that AO failed to provide the basis of arriving at the receipt of interest of Rs.10,06,93,540/- and making the addition of Rs.70,51,488/- (ii) stating that*

the assessee has offered interest of Rs.9,36,42,052/- only. Though the learned CIT(A) accepted that Rs.9,72,31,723/- was accrued during the year, he failed to consider the submission of assessee that Rs.9,72,31,723/- was already offered to tax.

- 6. The learned CIT(A) erred in : (i) not appreciating the submissions of assessee that the AO should not have made the addition of obsolete inventory to book profit for the purpose of sec.115JB. (ii) confirming the addition of obsolete stock treating the same as provision for diminution in value of assets without considering the detailed submission of assessee.*
- 7. The learned CIT(A) erred in not adjudicating the ground of appeal pertaining to interest u/s 234C.*
- 8. Appellant reserves the right to add / modify any grounds during the course of the proceeding before ITAT”.*

3. The brief facts of the case are that the assessee company, M/s Dr. Reddy's Laboratories Limited is engaged in the business of manufacture and sale of bulk drugs, APIs Formulation and other pharmaceutical products etc. The assessee company filed its return of income for the A.Y.2011-12 on 30.11.2011, declaring total income of Rs.329,13,07,501/- under normal provisions of the Income Tax Act, 1961 (“the Act”) and a book profit of Rs.1036,54,01,910/- under the provisions of section 115JB of the Act. The assessment has been

completed u/s 143(3) r.w.s.144C(4) of the Act on 25.05.2015 and assessed the total income at Rs.474,81,49,935/-. Further, a rectification order u/s 154 of the Act was passed on 22.03.2016, assessing income at Rs.478,02,51,739/- under normal provisions of the Act and book profit at Rs.1036,54,01,910/- under MAT provisions.

4. The assessment has been subsequently reopened u/s 147 of the Act for the reasons recorded, as per which, the income chargeable to tax had escaped assessment on account of under assessment of interest received from its Mexican subsidiaries and also incorrect computation of book profit u/s 115JB of the Act by making adjustment towards unrealized forex loss / gain and provision created for loss on inventory. Therefore, notice u/s 148 of the Act dated 28.03.2018 was issued and duly served on the assessee. In this regard, the assessee vide its letter dated 27.04.2018 requested to treat the original return filed as return of income filed in response to the notice u/s 148 of the Act. The case was selected for scrutiny and during the course of assessment proceedings, the assessee raised objections vide letter 26.12.2018 and contended that reopening of assessment after the period of 4 years from the end of relevant assessment year, without any new material available on record or without any omission or failure on the part of the assessee to make a return u/s 139 or to disclose fully and truly all material facts necessary for assessment, reopening of

assessment is bad in law and cannot be held to be valid. The Assessing Officer (“the AO”) after considering relevant submissions of the assessee and also taking note of provisions of Explanation 1 to section 115JB(2) of the Act held that there is a fresh tangible material in the form of information received from ADIT (I&CI), Hyderabad that during the calendar year, the assessee company has received interest income of Rs.9,78,37,070/- from its Mexico AE and further information from DIT(I&CI), New Delhi that the assessee company has received interest income of Rs.28,56,470/- from Mexico as interest, clearly shows that the assessee company has received interest income of Rs.10,03,93,540/-,whereas offered interest income of Rs. 9,36,42,052/-and thereby, there is escapement of income to the tune of Rs.70,51,488/-. The AO further observed that the said information has been received after completion of original assessment proceedings in the case of the assessee which partakes the nature of fresh tangible material, which is sufficient to form basis for escapement of income and for issue of notice u/s 148 of the Act. Therefore, rejected the contention of the assessee that there is no failure on the part of the assessee to fully and truly disclose the material facts necessary for assessment and held that even though the assessee had produced books of account, annual report and audited profit and loss account and balance sheet or other evidences, but requisite material facts as noted above in the reasons for reopening were embedded in such a manner that material

evidence could not be discovered by the AO. Therefore, observed that mere production of books of account before the Assessing Officer will not necessarily amount to disclosure within the meaning of explanation 1 of proviso to section 147 of the Act. Therefore, rejected the arguments of the assessee and upheld the reopening of the assessment.

5. During the course of assessment proceedings, the AO noticed that the assessee has received interest income of Rs.10,03,93,540/-, whereas, it offered interest income of Rs.9,36,42,052/-, thus, there is a difference of Rs.70,51,488/-, for which, no explanation has been offered by the assessee with relevant evidences, except stating that the assessee is following financial year for its accounting, whereas, its subsidiaries follows calendar year for accounting and due to this reason, there is difference in the interest income paid by the subsidiary and accounted by the assessee. Since the assessee could not reconcile the difference, the AO made addition of Rs.70,51,488/-. The AO further noted that as per Schedule 14-material cost, the assessee has claimed raw material consumed at Rs.10654 million, which includes Rs.731 million being provision created for inventory obsolescence. This being a provision for diminution in value of asset is an adjustment prescribed in Explanation 1 to section 115JB(2) and therefore, called upon the assessee to file its objections if any. In response, the assessee submitted that it is following lower of cost or net

realizable value for valuation of inventory and due to this method, there is reduction in value of inventory amounting to Rs.73,10,00,000/- on account of majority of inventory write down or loss due to blocked stocks, obsolete and non-moving stocks and carrying the inventory net realizable value and the same has been disclosed in page 117 of Annual Report under significant accounting policies and said method followed by the assessee is as per Accounting Standard 2 issued by Institute of Chartered Accountants of India for valuation of inventory, therefore, submitted that it is not a provision created for inventory, but reduction in value of inventory and therefore, it does not fall under adjustment provided under section 115JB of the Act. The AO after considering relevant submissions of the assessee and also taking note of relevant provisions, observed that the assessee has created provision for diminution in value of asset, being stock-in-trade and the same needs to be added back to MAT calculation, as per provisions of Explanation 1 to section 115JB(2) of the Act. Since the assessee has not added back the diminution in value of the asset, the AO recomputed the book profit by adding back Rs.73,10,00,000/- to the book profit u/s 115JB of the Act.

6. Being aggrieved by the assessment order, the assessee preferred an appeal before the CIT(A). Before the CIT(A), the assessee challenged reopening of assessment, in light of provisions of section 147 of the Act and contended that the AO

has reopened the assessment, without there being any fresh tangible material in his possession, which came subsequent to completion of original assessment proceedings. The assessee also contended that the assessment has been reopened beyond 4 years from the end of the relevant assessment year, without any allegation to the effect that there is failure on the part of the assessee to disclose fully and truly all material facts necessary for its assessment. The assessee has also challenged additions made by the AO towards interest income and also recomputation of book profit by making addition towards diminution in value of asset being loss of stock-in-trade and contended that the AO is erred in making additions, even though the assessee has explained the reasons for not accounting interest income as per report of the ADIT (I&CI) and DIT(I&CI). The assessee had also explained the reasons for loss claimed on account of valuation in stock-in-trade and claimed that it is only a valuation difference and not a provision created for stock in trade. The Ld.CIT(A) after considering the relevant submissions of the assessee, rejected the legal ground, challenging the validity of reopening of assessment and held that the AO has reopened assessment on the basis of fresh information received from ADIT(I&CI) and DIT(I&CI), which suggest escapement of income. The Ld.CIT(A) had also sustained the additions made by the AO towards difference in interest income accounted by the assessee and interest income paid by Mexico subsidiaries and held that the assessee could

not fully reconcile the difference, however, directed the AO to restrict the addition to Rs.3589,671/- on the basis of reconciliation statement submitted by the assessee. The Ld.CIT(A) had also sustained the additions made by the AO towards provision for loss on account of stock-in-trade, while computing book profit u/s 115JB of the Act and held that for computing profits u/s 115JB, one has to go by the provisions of the Act.

7. Aggrieved by the order of the Ld.CIT(A), assessee is now in appeal before the Tribunal.

8. The first issue that came up for consideration from ground No.3 and 4 of the assessee's appeal is validity of reopening of assessment u/s 147 of the Act. The learned counsel for the assessee Shri S.P.Chidambaram submitted that the Ld.CIT(A) erred in upholding the validity of reopening of assessment, even though the assessee has made out a case that the AO has reopened the assessment beyond 4 years from the end of the relevant assessment year, without there being any allegation on the part of the assessee to disclose fully and truly all material facts necessary for its assessment, for that assessment year. The learned counsel for the assessee, referring to the reasons recorded for reopening of assessment and approval u/s 151 of the Act submitted that, the AO reopened the assessment on the basis of fresh information received from ADIT(I&CI) and

DIT(I&CI), however, the assessee has explained the reasons for difference in the interest income received from Mexican subsidiary in its books of accounts by way of notes to accounts and stated that the assessee is following financial year as its accounting year, whereas, subsidiaries are following calendar year, which is even evident from the information passed by the ADIT(I&CI). The learned counsel for the assessee further submitted that the assessment for the impugned assessment year is subjected to scrutiny assessment and during the course of assessment proceedings, a reference was made to Transfer Pricing Officer for determination of ALP on international transaction of the assessee with its AE. The TPO has not made any adjustment during TP proceedings towards interest income received from its AE. From the above it is undisputedly clear that, the assessee has made true disclosure of necessary facts for computation of income and therefore, in the absence of any allegation, the assessment cannot be reopened beyond 4 years from the end of the relevant assessment year. The learned counsel for the assessee further referring to second issue submitted that the assessee is following lower of cost or net realizable value for valuation of inventory and the said method is in accordance with Accounting Standard-2 issued by the Institute of Chartered Accountants of India for valuation of inventory. The assessee has explained the method followed for valuation of inventories in notes to accounts and also made a full and true disclosure of facts, therefore, reopening of

assessment beyond 4 years from the end of the relevant assessment year is invalid and liable to be quashed. In this regard, he relied upon the following decisions:

- (i) Rajbhushan Omprakash Dixit (WP 3546 of 2018 dated 5 April 2019) (Bom HC)
- (ii) Gemstar Construction (P.)Ltd (WP 1005 of 2008 dated 6 January 2022) (Bom HC)
- (iii) Seshasayee Paper and Board Ltd. (WP 2759 of 2022 dated 11 January 2023) (Mad HC)
- (iv) Durr India (P.) Ltd. (P 1081 & 1083 of 2021 dated 29 August 2022) (Mad HC)
- (v) Durr India (P.) Ltd. (SLP (CIVIL) Diary No.45789 of 2023 dated 8 December 2023) (Supreme Court)
- (vi) Everest Kanto Cylinder Ltd. (WP 243 of 2022 dated 29 January 2024) (Bom HC)
- (vii) Akum Drugs and Pharmaceuticals Ltd. (WP(C) 12276 of 2018 dated 12 December 2023) (Delhi HC)

9. Shri B. Bala Krishna, Ld. CIT-DR on the other hand, supporting the order of the Ld. CIT(A) submitted that there is no dispute with regard to the fact that original assessment in the present case was completed u/s 143(3) of the Act and the assessment has been reopened beyond 4 years from the end of the relevant assessment year, but the fact remains that there is tangible material which came to the possession of the AO after

the completion of the original assessment proceedings, which is evident from the reasons recorded, where the AO made reference to information received from ADIT(I&CI) and DIT(I&CI) which reveals interest income received by the assessee from its Mexican subsidiaries and upon verification of relevant facts, it is noticed that there is under assessment of interest income, which has escaped assessment. Further, the AO has recorded reasons in respect of computation of book profit and made out a case that the assessee has not followed relevant provisions of the Act, while computing book profit u/s 115JB of the Act, which resulted in under assessment of tax. Since there is valid reason for reopening of assessment, the AO has rightly reopened the assessment. Therefore, the arguments of the assessee that there is full and true disclosure of necessary facts in respect of interest income and provision for loss of inventory is devoid of merit and cannot be accepted. Therefore, he submitted that the grounds taken by the assessee, challenging the reopening of assessment should be rejected. In this regard, he relied upon the decision of Hon'ble Karnataka High Court in the case of N.Govindaraju Vs.Income-tax Officer [2015] 60 taxmann.com 333 [Karnataka].

10. We have heard both the parties, perused the material on record and gone through the orders of the authorities below. There is no dispute with regard to the fact that the assessment has been reopened after 4 years from the end of the relevant

assessment year and the original assessment in the present case was completed u/s 143(3) of the Act and therefore, the validity of reopening of assessment u/s 147 of the Act needs to be examined in light of proviso to section 147 of the Act and relevant arguments of the counsel for the assessee and evidences submitted in support of his arguments. Admittedly as per the reasons recorded for reopening of the assessment, the AO reopened the assessment on two issues. The first and foremost issue considered by the AO is interest received by the assessee company from its Mexican subsidiaries. The assessee company has received interest income of Rs.10,03,93,540/- (Rs.9,78,37,070+Rs.28,56,470) from Mexican subsidiaries, however, offered interest income at Rs.9,36,42,052/- in its books of accounts. Thus, there is difference of Rs.70,51,488/-. The assessee claims that it is following financial year as its accounting year, whereas Mexican subsidiaries are following calendar year and because of this, there is difference in the interest income paid by the subsidiaries and interest income accounted by the assessee for the financial year relevant to A.Y.2011-12. The assessee claims that it has made true and full disclosure of necessary facts in the financial statements and therefore, reopening of assessment without any allegation that there is failure on the part of the assessee to disclose fully and truly necessary facts for its assessment and for that assessment year, the assessment cannot be reopened beyond 4 years from the end of the relevant assessment year.

11. We have given our thoughtful consideration to arguments of both sides and we, find that as per the proviso to section 147 of the Act, in case the assessment has been completed u/s 143(3) of the Act, no action can be taken u/s 147 after 4 years from the end of the relevant assessment year, unless there is failure on the part of the assessee to disclose fully and truly all material facts necessary for its assessment for that assessment year and this principle is upheld by various courts and there is no dispute on this legal proposition. However, whether there is full and true disclosure of material facts necessary for assessment and there is any fresh tangible material for the AO to reopen the assessment has to be seen in the context of facts of the present case alone. In the present case, there is no dispute with regard to the fact that the AO has received information from the ADIT(I&CI) that during the calendar year 2010 the assessee company has received interest income of Rs.9,78,37,070/- from its Mexican AE. The AO has carried out enquiries and revealed that during the period, the assessee company has offered interest income from its Mexican AE at Rs.9,36,42,052/-. Similarly, the AO has received one more information from DIT(I&CI), New Delhi that the assessee company has received interest income of Rs.28,56,470/- from Mexican subsidiary. The AO once again carried out verification on relevant information and ascertained that the assessee has received interest income of Rs.10,03,93,540/-, whereas offered interest income of Rs.9,36,42,052/- and thereby, there is

difference of Rs.70,51,488/-, which escaped the assessment. The assessee has not disputed these facts. Although, it has reconciled the difference to the extent of relief given by the Ld.CIT(A), but still there is difference, which could not be reconciled by the assessee. Therefore, in our considered view, arguments of the assessee that there is true and full disclosure of necessary facts in respect of interest income received from Mexican subsidiary is devoid of merit and cannot be accepted, because the assessee has never furnished any details with regard to interest income either in its financial statements, by way of notes to accounts and the accounting policies followed for accounting interest income from Mexican subsidiary, in light of financial year followed by the assessee and calendar year followed by the Mexican subsidiary, nor has explained this difference to the AO during the course of assessment proceedings. Therefore, in our considered view, there is no true and full disclosure of necessary facts in respect of interest income either in the financial statement or during the course of assessment proceedings. Although the assessee claims that it has furnished relevant financial statements and books of accounts, in our considered view, mere production of books of accounts and other evidence from which material evidence could with due diligence has been discovered by the AO will not necessarily amount to disclosure within the meaning of the proviso to section 147 of the Act. Therefore, we are of the considered view that there is no merit in the argument of the

assessee on the issue of reopening of assessment in respect of interest income received from Mexican subsidiary.

12. Coming back to the issue of computation of book profit u/s 115JB(2) of the Act. The AO observed from notes to Schedule 14 – material cost, the assessee has claimed raw material consumed at Rs.10654 million, which includes Rs.731 million, being provision created for inventory obsolescence and the same has not been added to book profit in terms of Explanation 1 to section 115JB(2). Once again, the assessee argued the case in light of proviso to section 115JB of the Act and stated that there is no allegation from the AO that there is failure on the part of the assessee to disclose fully and truly all material facts necessary for assessment. We find that the assessee has explained the method of accounting followed for valuation of inventory and as per the assessee, it has followed lower of cost or net realizable value for valuation of inventory and because of obsolete stock-in-trade there is reduction in value of stock to Rs.73,10,00,000/- and this has been reported in notes to accounts, in page 117 of Annual Report of the assessee company. We have gone through relevant evidences submitted by the assessee in support of its arguments and find that the assessee has reported the method of accounting followed for inventories and there is no dispute that the assessee has followed lower of cost or net realizable value, however, fact remains that there is no specific disclosure with

regard to provision for obsolete inventory to the extent of Rs.73,10,00,000/- either in the notes to account or explained to the AO during the course of assessment proceedings. Further the assessee followed lower of cost or net realizable value for valuation of inventory. Therefore, in our considered view once cost or net realizable value method is followed for valuation of inventory, there is no requirement of making separate entry for loss of inventory on account of obsolete stock in the financial statements. This is because, once the assessee followed lower of cost or net realizable value, the closing stock value determined by the assessee itself takes care reduction in the value of inventory. However, there is no requirement of passing separate entry into the books of accounts under the head obsolescence of inventory. In the present case, although the assessee claims that it follows lower of cost or net realizable value, but has made provision of Rs.73,10,00,000/- and the same has been debited under the head material consumed and from the above, it is evident that the assessee has made separate provision for inventories on the basis of its own assessment of inventory, but the said method followed by the assessee is not in accordance with the accounting standard issued by the Institute of Chartered Accountants of India for valuation of inventory. Since the assessee has reduced the value of inventory, it is nothing but a diminution in the value of asset and the same falls under Explanation 1 to section 115JB of the Act and thus, the same needs to be added back to the profit computed for the year

under consideration. Therefore, we are of the considered view that there is clear escapement of income on account of excess deduction towards loss of inventory in respect of obsolete stock and the same has not been properly explained by the assessee, either in the notes to account in the financial statement or during the course of assessment proceedings and in our considered view, there is valid ground for the AO to reopen the assessment u/s 147 of the Act.

13. Coming back to various case laws relied upon by the learned counsel for the assessee. The learned counsel for the assessee relied upon the decision of Hon'ble High Court of Bombay in the case of Raj Bhushan Omprakash Dixit Vs. DCIT [2019] 106 taxmann.com 307 (Bombay) and more particularly para 12 of the said order. We find that the facts of the said case are entirely different and not applicable to the present case because, as observed by the Hon'ble High Court in para 12 of their order that the department had already collected certain documents and materials which were before the AO at the time of framing assessment. The AO did not for some reason advert to such material or did not utilize the same, he surely cannot allege that the assessee failed to disclose truly and fully all material facts. Similarly, the assessee has relied upon the decision of Hon'ble High Court of Bombay in the case of Gemstar Construction (P.) Ltd. Vs. Union of India[2022] 135 taxmann.com 220 (Bombay). We find that in the said case, the

issue before the Hon'ble High Court is whether reopening of assessment was valid on the issue of deduction u/s 80-IB(10) of the Act and under those facts, the Hon'ble High Court came to the conclusion that the notice to reopen the assessment was founded entirely on the assessment records and the entire basis for reopening the assessment was the disclosure, which has been made by the assessee in the course of the assessment proceedings. In the present case, the entire basis for the AO to reopen the assessment is subsequent receipt of information from ADIT(I&CI) and DIT(I&CI). Therefore, in our considered view, the fact of the case stands in a different footing and cannot be made applicable to the case laws relied upon by the assessee. The assessee had also relied upon the decision of Hon'ble Madras High Court in the case of ACIT Vs. Seshasayee Paper and Board Ltd. [2023] 148 taxmann.com 432 (Madras) and more particularly para 9 of the order of the Hon'ble High Court. We once again notice that once there is a true disclosure of necessary facts and the AO reopened the assessment on the basis of material available on record, without there being any fresh tangible material which amounts to reopening of the assessment on the very same material contrary to proviso to section 147 of the Act and thus becomes invalid. In the present case as we have already stated in the earlier part of this paragraph, the AO has reopened the assessment on the basis of fresh tangible material which came to his possession subsequent to completion of original assessment proceedings

and therefore, in our considered view, the argument of the assessee that there is full and true disclosure of necessary facts in respect of his assessment is devoid of merit and cannot be accepted.

14. In view of this matter and considering the facts of the case and also by following the ratios of various High Courts discussed hereinabove, we are of the considered view that, reopening of assessment in the present case is on valid and sound reason, which is based on fresh tangible material came to the possession of the AO subsequent to completion of original assessment proceedings u/s 143(3) of the Act. Therefore, the argument of the assessee there is no failure on the part of the assessee to disclose fully and truly all material facts necessary for its assessment for that assessment year is devoid of merit. Thus, we reject the ground taken by the assessee and uphold the validity of reopening of assessment.

15. The next issue that came up for consideration from ground No.5 of assessee's appeal is addition of Rs.35,89,671/- towards interest received from Mexican subsidiary. During the course of assessment proceedings, the AO noticed that the assessee has received interest income from Mexican subsidiary as reported by the ADIT(I&CI) and DIT(I&CI) of Rs.10,06,93,540/-, whereas offered interest income of Rs.9,36,42,052/- and thereby, there is a difference of

Rs.70,51,488/-. The AO called upon the assessee to reconcile the difference with relevant evidence. In response, the assessee submitted that due to difference in financial year followed by the assessee and the subsidiary, there is difference in the interest income reported by the subsidiaries and interest income offered by the assessee in their books of accounts. The AO, however, was not convinced with the explanation furnished by the assessee, accordingly, made addition of Rs.70,51,488/- towards interest income. On appeal, the Ld.CIT(A) allowed partial relief to the assessee, where the Ld.CIT(A) directed the AO to restrict interest disallowance to Rs.35,89,671/- after considering relevant reconciliation submitted by the assessee.

16. The learned counsel for the assessee submitted that the Ld.CIT(A) erred in sustaining interest income, even though the assessee has explained the reasons for difference in interest income offered to tax. Therefore, he submitted that the additions made by the AO and sustained by the Ld.CIT(A) should be deleted.

17. The learned DR on the other hand, supporting the order of the Ld.CIT(A) submitted that the assessee could not reconcile the difference, therefore, the Ld.CIT(A) rightly sustained the additions and their order should be upheld.

18. We have heard both the parties, perused the material on record and gone through the orders of the authorities below. There is no dispute with regard to the fact that the assessee has received interest of Rs. 10,06,93,540/-, whereas offered interest income of Rs.9,72,31,723/-. The difference of Rs.35,89,671/- could not be reconciled with relevant evidences, except stating that due to difference in financial year followed by the assessee and the subsidiaries, there is difference in interest income as reported by the subsidiaries. In our considered view, whether the assessee follows financial year or calendar year, but need to reconcile interest income with books of accounts of the assessee and interest income claimed to have been paid by the subsidiaries. Since the assessee failed to reconcile, in our considered view, Ld.CIT(A) rightly sustained the additions towards interest income and thus, we are inclined to uphold the findings of the Ld.CIT(A) and reject the ground taken by the assessee.

19. The next issue that came up for consideration from Ground No.6 of assessee's appeal is recomputation of book profit u/s 115JB of the Act, by making addition of Rs.73,10,00,000/- towards provision for loss of inventory. The learned counsel for the assessee submitted that the Ld.CIT(A) erred in not appreciating the submission of the assessee that the AO should not have made addition of obsolete inventory to book profit, even though the assessee has explained the reasons

for the said difference and argued that it is not a provision for diminution in value of asset, but reduction in value of assets for valuation of inventories in terms of Accounting Standard-2 issued by the Institute of Chartered Accountants of India. Therefore, he submitted that the additions made by the AO towards book profit should be deleted.

20. The Ld.CIT-DR on the other hand, supporting the order of the Ld.CIT(A) submitted that, the assessee could not explain as to why loss of inventory has been debited to raw material consumed account, when the assessee followed lower of cost or net realizable value for the purpose of valuation of inventory. If the claim of the assessee is correct, then any reduction in value of inventory will be reported in the value of closing stock instead of debiting to material consumed account. Since the assessee could not explain the debit to material consumed account, the Ld.CIT(A) has rightly sustained the additions made by the AO. Therefore, the order of the Ld.CIT(A) should be upheld.

21. We have heard both the parties, perused the material on record and gone through the orders of the authorities below. There is no dispute with regard to the fact that accounting treatment given by the assessee for valuation of inventory as reported by the assessee in page No.117 of its financial statements. The assessee has followed lower of cost or net realizable value for the purpose of valuation of inventory. Once

the assessee follows the said method of accounting, then in our considered view, any reduction in value of inventory is reported in closing value of stock-in-trade or inventory, but the question of debiting the said reduction in value of inventory to the material consumed account does not arise. In the present case, there is no dispute with regard to the fact that the assessee has debited Rs.73,10,00,000/- under the head loss of inventory and explained that the said loss on inventory is on account of reduction in value of obsolete stock, blocked stocks and carrying the inventory at net realizable value. However, the assessee could not explain as to how the amount has been debited under the head loss on inventory into material consumed account. Therefore, going by the arguments of the assessee in light of the method of accounting followed for valuation of inventory, in our considered view, there is no merit in the claim of the assessee towards accounting policy and treatment given for reduction in value of assets, therefore, to this extent we cannot appreciate the reasons given by the assessee.

22. Having said so, let us come back whether the provision for loss on inventory is an item which needs to be added back to the book profit in terms of section 115JB(2) and Explanation 1 of the Act. As per section 115JB(2), Explanation 1, Clause (i), any amount or amounts as the provision for diminution in the value of any asset should be added back to book profit. In the

present case, the assessee has set apart a provision for loss of inventory of Rs.73,10,00,000/- and therefore, in our considered view, the said provision comes under Explanation 1, clause (i) of Section 115JB(2) of the Act under the head any amount or amounts set aside as provision for diminution in value of asset. Since the inventory is an asset, any reduction in value of asset should be added back to book profit computed in terms of section 115JB(2) of the Act. Therefore, we are of the considered view that there is no error in the reasons given by the AO and the Ld.CIT(A) to recompute the book profit, by making addition towards diminution in value of asset being loss on inventory of Rs.73,10,00,000/-.

23. Coming back to case laws relied upon by the assessee. The assessee has relied upon the decision of Hon'ble High Court of Gujarat in the case of CIT Vs.Vodafone Essar Gujarat Ltd in Tax Appeal No.749 of 2012 dated 04 August 2017 in support of its contentions. We have gone through the relevant case law and more particularly para 23 of the order of the Hon'ble High Court of Gujarat and we find that, in the said case, it is not a case of mere provision made by the assessee but actual write off of bad debts by debiting to Profit and Loss account and crediting the respective asset account in the asset side of the balance sheet. Therefore, under these facts, the Hon'ble High Court came to the conclusion that it is not a mere provision and therefore clause(c) of Explanation 1 to section 115JB(2) has no

application. The assessee has also relied upon the decision of Hon'ble High Court of Delhi in the case of E.I.Dupont India Ltd (ITA No.599 of 2007 dated 11 January 2008) (Delhi HC) and more particularly, para 7 ad 9 and we once again noted that in the said case, the assessee has written off obsolete stocks and reduced from the value of closing stock and therefore, under those facts, the Hon'ble High Court came to the conclusion that once accounts have been prepared in accordance with Part II and III of Schedule VI of the Companies Act, then only adjustment can be made to book profit u/s 115JA of the Act as provided therein. In the present case, going by the method of accounting for valuation of closing stock and the accounting treatment given for loss on inventory, in our considered view, the assessee has made a provision in the books of accounts for obsolete stock, without writing off of said inventory in the books of accounts. Therefore, in our considered view, the above case laws referred by the assessee have no application to the facts of the case of the assessee and thus rejected.

24. In view of this matter and considering the facts of the case, we are of the considered view that there is no error in the reasoning given by the AO and the CIT(A) to recompute book profit by making adjustment towards provision for loss on inventory in terms of Explanation 1 to section 115JB(2) of the Act. Thus, we are inclined to uphold the findings of the Ld.CIT(A) and reject the ground taken by the assessee.

ITA No.409/Hyd/2023
Dr.Reddys Laboratories Limited 

25. In the result, the appeal filed by the assessee is dismissed.

Order pronounced in the Open Court on 07th April, 2025.

Sd/-	Sd/-
(VIJAY PAL RAO) VICE PRESIDENT	(MANJUNATHA G.) ACCOUNTANT MEMBER

Hyderabad, Dated 07th April, 2025

L.Rama, SPS

Copy to:

S.No	Addresses
1	Dr. Reddy's Laboratories Limited, 8-2-337, Road No.3, Banjara Hills, Hyderabad – 500 034. Telangana.
2	Deputy Commissioner of Income Tax, Circle-8(1) Signature Towers, Kondapur, Kothaguda, Opp. Botanical Gardens, Hyderabad – 500 -084. Telangana
3	The Pr.CIT, Hyderabad
4	The DR, ITAT Hyderabad Benches-"A", Hyderabad.
5	Guard File

By Order