

आयकर अपीलीय अधिकरण, 'बी' न्यायपीठ, चेन्नई
**IN THE INCOME TAX APPELLATE TRIBUNAL
'B' BENCH, CHENNAI**

श्री जॉर्ज जॉर्ज के, उपाध्यक्ष एवं श्री एस.आर.रघुनाथा, लेखा सदस्य के समक्ष
**BEFORE SHRI GEORGE GEORGE K, VICE PRESIDENT AND
SHRI S.R.RAGHUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA Nos.: 1734, 1735, 1736 & 1737/Chny/2025
निर्धारण वर्ष / **Assessment Year: 2013-14, 2014-15, 2016-17 & 2017-18**

M/s. Thiruvalluvar Textiles Private Limited, 2-9, Singalandapuram Pirivu Road, Koneripatty, Rasipuram, Namakkal District – 637 408. Tamil Nadu.	vs.	ACIT Central Circle – 1(1), Chennai.
[PAN: AACT-9934-H] (अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से/Appellant by : Shri. Y.Sridhar, FCA
प्रत्यर्थी की ओर से/Respondent by : Shri. Shiva Srinivas, CIT.

सुनवाई की तारीख/Date of Hearing : 03.09.2025
घोषणा की तारीख/Date of Pronouncement : 04.11.2025

आदेश / O R D E R

PER S. R. RAGHUNATHA, AM :

These four appeals filed by the assessee are directed against separate orders passed by the learned Commissioner of Income Tax, Appeal, CIT(A), Chennai - 18, both dated 26.05.2025 for assessment years 2013-14, 2014-15, 2016-17 & 2017-18 respectively. Since, facts are identical and issues are common, for the sake of convenience, these

appeals filed by the assessee are being heard together and disposed of by this consolidated order.

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

ITA 1734 & 1737/Chny/2025 for A.Y.2013-14 and 2017-18:

1. *The order of the Id. CIT(A) is without jurisdiction, contrary to law, facts and circumstances of the case and is opposed to the principles of natural justice.*
2. *The Id. CIT (A) erred in confirming the action of the Id. AO in disallowing the interest paid on borrowed capital amounting to Rs.4,91,89,563/- as partly diverted for non-business purposes in respect of investment made by the appellant company in its subsidiary company, M/s.The Narasimha Mills Private Ltd.*
3. *The Id. CIT(A) erred in sustaining the proportionate disallowance of interest expenses with regard to advances given and investment made in subsidiary company, is bad in law and against the facts and circumstances of the case.*
4. *The Id. CIT (A) ought to have appreciated the fact that once advance given to subsidiary company "for the purpose of business" and appellant has a deep interest in the business of subsidiary company, then interest on loan taken being meant for the purpose of business is duly allowable as business expenditure. The object of the loan is an irrelevant consideration whether the expenses for capital account and revenue account.*
5. *For the above reasons and reasons that may be adduced at the time of hearing, the disallowance of proportionate interest on advances and investments in subsidiary company may kindly be deleted to meet justice.*
6. *The appellant craves the leave to add, modify, amend or delete any of the grounds of appeal at the time of hearing and all the above grounds are without prejudice to each other.*

ITA 1735/Chny/2025 for A.Y.2014-15:

1. *The order of the Id. CIT(A) is without jurisdiction, contrary to law, facts and circumstances of the case and is opposed to the principles of natural justice.*

2. *The Id. CIT (A) erred in confirming the action of the Id. AO in disallowing the interest paid on borrowed capital amounting to Rs.13,76,59,938/- as partly diverted for non-business purposes in respect of investment made by the appellant company in its subsidiary company, M/s The Narasimha Mills Private Ltd.*
3. *The Id. CIT(A) erred in sustaining the proportionate disallowance of interest expenses with regard to advances given and investment made in subsidiary company, is bad in law and against the facts and circumstances of the case.*
4. *The Id. CIT (A) ought to have appreciated the fact that once advance given to subsidiary company "for the purpose of business" and appellant deep interest in the business of subsidiary company, then interest on has a loan taken being meant for the purpose of business is duly allowable as business expenditure. The object of the loan is an irrelevant consideration whether the expenses for capital account and revenue account.*
5. *On the facts and circumstances of the case and in law, the Id. CIT(A) has erred in confirming the addition of Rs.31,04,80,000/- without considering the submissions made during the appellate proceedings.*
6. *The Id. CIT(A) failed to appreciate the fact that as per rule 11 UA, option is given to the assessee to adopt one of the approved methods, either by NAV or DCF method.*
7. *The Id. CIT (A) ought to have appreciated the fact that share valuation report u/s 11 UA cannot be negated if facts of the valuation are justifiable.*
8. *For the above reasons and reasons that may be adduced at the time of hearing, the disallowance of proportionate interest on advances and investments in subsidiary company may kindly be deleted to meet justice.*
9. *The appellant craves the leave to add, modify, amend or delete any of the grounds of appeal at the time of hearing and all the above grounds are without prejudice to each other.*

ITA 1736/Chny/2025 for A.Y.2016-17:

1. *The order of the Id. CIT(A) is without jurisdiction, contrary to law, facts and circumstances of the case and is opposed to the principles of natural justice.*

2. *The Id. CIT (A) erred in confirming the action of the Id. AO in disallowing the interest paid on borrowed capital amounting to Rs.5,09,00,686/- as partly diverted for non-business purposes in respect of investment made by the appellant company in its subsidiary company, M/s The Narasimha Mills Private Ltd.*
 3. *The Id. CIT(A) erred in sustaining the proportionate disallowance of interest expenses with regard to advances given and investment made in subsidiary company, is bad in law and against the facts and circumstances of the case.*
 4. *The Id. CIT (A) ought to have appreciated the fact that once advance given to subsidiary company "for the purpose of business" and appellant has a deep interest in the business of subsidiary company, then interest on loan taken being meant for the purpose of business is duly allowable as business expenditure. The object of the loan is an irrelevant consideration whether the expenses for capital account and revenue account.*
 5. *The learned CIT(A) has failed to comprehend that, additions of Rs.1,21,929/- made based on a piece of paper found during the course of survey as unrecorded sales without any evidentiary value/ without offering any cogent reason for the same.*
 6. *For the above reasons and reasons that may be adduced at the time of hearing, the disallowance of proportionate interest on advances and investments in subsidiary company may kindly be deleted to meet justice.*
 7. *The appellant craves the leave to add, modify, amend or delete any of the grounds of appeal at the time of hearing and all the above grounds are without prejudice to each other.*
3. The brief fact of the case is that the assessee is a company engaged in manufacture of cotton yarn and trading in textile products. The assessee case was selected for scrutiny assessment under CASS. During the assessment proceedings for the A.Y.2013-14, it is noticed that the assessee has invested towards equity shares to the tune of Rs.19,62,46,913/- and also advanced monies of Rs.9,72,69,591/- (Share application money) to M/s.The Narasimha Mills Pvt. Ltd. (TNMPL), its

wholly owned subsidiary. However, the AO disallowed the proportionate interest @ 12.5% on the amounts of investments and advances made by the assessee in its subsidiary company for the A.Y.2013-14, 2014-15, 2016-17 & 2017-18 under the pretext that the borrowed funds have been diverted for non-business purposes.

4. It is further observed that, in addition to the disallowance of interest, for the AY 2014-15, an addition u/s.56(2)(viib) of the Act has also been made towards share premium received.

5. Further, the Assessing Officer also disallowed Excess claim of depreciation (A.Y.2013-14, 2014-15 and 2016-17), Income on unrecorded Sale (A.Y.2016-17) and Disallowance u/s.14A of the Act (A.Y.2013-14 and 2014-15).

6. Aggrieved by the order of the Assessing Officer, the assessee preferred an appeal before the Id.CIT(A), Chennai – 18.

7. The Id.CIT(A) passed a common order dated 26.05.2025 by confirming the disallowance the proportionate interest @ 12.5% on the amounts of investments and advances and addition u/s.56(2)(viib) of the Act on account of share premium. Further, the Id.CIT(A) has deleted the other additions made by the Assessing Officer in the respective A.Ys.

8. Thus, the issues for consideration along with quantum of disallowance for each year is given below:

Sl.No.	AY	Disallowance of proportionate interest (Rs.)	Addition u/s. 56(2)(viib)(Rs.)
1	2013-14	4,91,89,563	-
2	2014-15	13,76,59,938	31,04,80,000
3	2016-17	5,09,00,686	-
4	2017-18	3,53,70,007	-

9. Aggrieved by the order of the Id.CIT(A), the assessee is in appeal before us for all the four (supra) assessment years.

10. The Id.AR for the assessee submitted that in respect of disallowance of proportionate interest, the AO submitted a remand report on 07.03.2023 bringing out the accumulated profits available and increase in loans as on 31.03.2008 vis-à-vis the accumulated profits as on 31.03.2007 and concluded that no sufficient own funds are available to the assessee to make investments but only from out of borrowed funds. The relevant portion of the report is reproduced below:

“The above schedule clearly states that as on 01-04-2007 the accumulated profits is Rs.4,47,93,091/-, whereas as at the end of the year it is Rs.Minus 609,26,420/-. Thus, the amount paid to the subsidiary is not through the accumulated profit as claimed by the assessee.”

11. The relevant portion of the Balance sheet as at 31st March 2008 is reproduced herewith for ease of reference:

THIRUVALLUVAR TEXTILES PRIVATE LIMITED			
BALANCE SHEET AS AT 31ST MARCH 2008			
SOURCES OF FUNDS	SC.NO.	CURRENT YEAR 31.03.2008 Rs.	PREVIOUS YEAR 31.03.2007 Rs.
<u>SHARE HOLDERS FUNDS</u>			
SHARE CAPITAL	1	7,06,31,000	7,06,26,000
SHARE APPLICATION MONEY		30,90,50,000	17,90,55,000
RESERVES AND SURPLUS	2	7,51,84,580	18,09,04,091
		45,48,65,580	43,05,85,091

THIRUVALLUVAR TEXTILES PRIVATE LIMITED		
BALANCE SHEET AS AT 31ST MARCH 2008		
<u>SCHEDULES TO BALANCE SHEET AS AT 31ST MARCH 2008</u>	CURRENT YEAR 31.03.2008 Rs.	PREVIOUS YEAR 31.03.2007 Rs.
SCHEDULE 1 - SHARE CAPITAL		
<u>AUTHORIZED:</u> 14,50,000/- EQUITY SHARES OF Rs.100/- EACH	14,50,00,000	14,50,00,000
<u>ISSUED, SUBSCRIBED AND PAID UP:</u> 7,06,310 EQUITY SHARES OF Rs.100/- EACH (Previous Year - 7,06,260 Equity Shares of Rs.100/- Each)	7,06,31,000	7,06,26,000
<u>SCHEDULE 2 - RESERVES AND SURPLUS</u>		

CAPITAL RESERVE	12,11,000	12,11,000
SHARE PREMIUM	13,49,00,000	13,49,00,000
SUB TOTAL (A)	13,61,11,000	13,61,11,000
<u>SURPLUS IN PROFIT AND LOSS ACCOUNT</u>		
AS PER LAST BALANCE SHEET	4,47,93,091	2,62,98,584
ADD: Surplus transferred from Profit and Loss A/c.	-10,57,19,511	1,84,94,507
(B)	-6,09,26,420	4,47,93,091
TOTAL (A)+(B)	7,51,84,580	18,09,04,091

12. The Id.AR argued that the AO failed to note that while considering reserves, he has considered only 'Profit and Loss account' and not the 'Securities Premium' and 'share application money pending allotment', which if considered establishes that the company has own funds to lend to its subsidiary. From the above table it is evident that it had sufficient own funds.

13. Further, the Id.AR argued that even assuming without conceding that, share application money and securities premium cannot be considered as equity, it has to be noted that it does not carry any interest, and it ought to be considered as interest-free funds available with the assessee company. Further, the Id.AR submitted that the assessee had lent/acquired M/s.TNMPL in the interest of 'commercial expediency'. The assessee company had advanced monies to its subsidiary company to expand its business interest and are solely for the purpose of business. Moreover, the subsidiary company is also in the same line of business i.e.,

manufacture of yarn and the assessee company invested its monies to revive the business of the subsidiary company which in turn expands the business interest of the assessee company.

14. The Id.AR submitted that the assessee, to make its investment in subsidiary fruitful and make the subsidiary operate its business after due discharge of their debts to various banks and creditors, lent money as interest free loan. Further, the assessee had taken the plant and machinery on lease from its subsidiary company and had run the business under its management. There has been increase in the turnover of the assessee. The assessee has made investment in M/s.TNMPL primarily with an intention to acquire its already existing plant and machinery. Had the assessee chosen to establish a new plant from scratch instead, it would have required considerably more time and money. Further, Id.AR stated that the assessee has taken credit facilities from the bank for expansion of existing capacity including acquisition of assets at M/s.TNMPL and construction of new factory building. In support of the same the Id.AR drew our attention to the copy of the Sanction Letter. Hence the Id.AR argued that the '*commercial expediency*' is proved beyond doubt in the present case.

15. The expression "*commercial expediency*" is an expression of wide import and includes such expenditure as a prudent businessman incurs for the purpose of business.

16. At the juncture, the Id.AR also stated that Section 36(1)(iii) of the Act which states that *“the amount of the interest paid in respect of capital borrowed for the purpose of business or profession (emphasis supplied) has to be allowed as a deduction in computing the income tax u/s.28 of IT Act”*.

17. The Ld. CIT(A) ought to have appreciated the fact that once advance given to subsidiary company *“for the purpose of business”* and assessee has a deep interest in the business of subsidiary company, then interest on loan taken being meant for the purpose of business is duly allowable as business expenditure. The object of the loan is an irrelevant consideration, whether the expenses are made for capital account or revenue account.

18. In support of the above arguments, Id.AR rely on the following judicial pronouncements:

19. Apart from relying on the decision of the Hon'ble Supreme court in the case of S A Builders Ltd reported in 288 ITR 1 (SC), the Id.AR placed reliance in the case of ***Madhav Prasad Jantia vs CIT UP AIR 1979 SC 1291***, it was held that the expression *“for the purpose of business occurring under this provision is wider in scope than the expression “for the purpose of earning income, profit or gains”*. Similar view has been expressed in the case of ***CIT vs Malayalam Plantations Ltd (1964) 53 TR 140, and CIT Vs Birla Cotton Spinning Mills (1971) 82 ITR 166***.

20. In order to claim a deduction, it is enough to show that money is expended, not necessity and with a view to direct and immediate benefit, but voluntarily and on the grounds of commercial expediency and in order to indirectly facilitate the carrying on the business as held in the case of **CIT vs Chandulal Keshavlal & Co (1960) 38 ITR 601.**

21. In the case of **ACIT vs T Bhimjyani Realty P Ltd ITAT Mumbai dated 16/01/2025 in ITANo 4901/Mum/2024** held that *“if advance /investment made by the assessee to its sister concern interest for the purpose of commercial expediency, no disallowance of interest can be made as the expenditure expended for the purpose of business u/s 36 and 37 of IT Act”*

22. In the case of **DCIT vs Shri Moolchand Kiran Kumar Jain ITAT Chennai in ITA no 5&6/Chny/2024 dated 12/07/2024** held that *“interest paid on borrowed funds, which is utilized for the investment in the shares of the company is allowable expenditure”*

23. In view of the above, the expenditure incurred for the AY 2013-14, 2014-15, 2016-17 and 2017-18 towards interest paid on borrowed funds which is utilized for investment/advance in its subsidiary M/s.The Narasimha Textiles Private Ltd, may kindly be allowed and justice be rendered.

24. Further, in assessee's own case on the same issue the Chennai Tribunal allowed the interest expense and directed the AO to delete the addition in this regard vide its order in *ITA No.854 to 857/CHNY/2025 dated 04.07.2025 for the A.Ys. 2008-09 to 2011-12.*

25. In light of the above arguments the Id.AR prayed for deleting the disallowances of proportionate interest expenditure made by the AO.

26 We have heard the rival contentions perused the material available on record and gone through the orders of lower authorities along with paper book and case laws relied on. The assessee is a company engaged in manufacture of cotton yarn and trading in textile products. The assessee case was selected for scrutiny assessment under CASS. During the assessment proceedings for the A.Y.2013-14, the Assessing officer found that the assessee has invested towards equity shares to the tune of Rs.19,62,46,913/- and also advanced monies of Rs.9,72,69,591/- (Share application money) to M/s.The Narasimha Mills Pvt. Ltd. (TNMPL), its wholly owned subsidiary. The investment & advances given to M/s.TNMPL by the assessee, the Assessing Officer presumed that the only source of monies for making advances/investment to the subsidiary M/s.TNMPL was from the business loan of Rs.150.89 Crores. Therefore, he was of the view that the assessee company had diverted the business loan for the purpose of non-business and had claimed proportionate interest expenditure on the advances/investment made in M/s.TNMPL which claim of expenditure was

not allowable. Further, according to the AO, the ultimate aim of the assessee was for acquiring capital asset i.e. assessee company M/s.NMPL. Hence, the proportionate interest @ 12.5% on the amount of investment in equity shares of Rs.19,62,46,913/- and advances of Rs.9,72,69,591/- was disallowed. On appeal, the Ld.CIT(A) has confirmed the action of the AO.

27. The main thrust of the contention of the assessee's Counsel is that the assessee company had enough own funds to invest in the wholly owned subsidiary M/s.TNMPL to the tune of Rs.19,62,46,913/- and advance of Rs.9,72,69,591/-. In order to support his argument, the Ld.AR drew our attention to the audited financials of the assessee for the financial year ending 31.03.2008, which shows that the assessee company had own funds of Rs.45.48 Crores (Share Capital Rs.7.06 Cores + Share Application Money Rs.30.90 Crores + Reserve and Surplus of Rs.7.52 crores).

28. On perusal of the above capital funds compared to the amount invested in the subsidiary company of Rs.29.34 Crores (Rs.19.62 Crores and Rs.9.72 crores), we find that the assessee has enough own funds to invest in the subsidiary.

29. Further, in the similar set of facts of the assessee's own case has been decided by this Tribunal in *ITA No.854 to 857/CHNY/2025 dated 04.07.2025 for the A.Ys. 2008-09 to 2011-12* by setting aside the order of the Id.CIT(A)

holding that the interest disallowance u/s.36(1)(iii) was not warranted. The relevant portion of the order is extracted below :

“8. We have heard both the parties and carefully perused the records including Paper Books filed by the assessee. The assessee is a company engaged in manufacture of cotton yarn. The assessee company is noted to have invested towards equity shares of M/s.TNMPL and also had advanced monies to it (M/s. TNMPL), its wholly owned subsidiary. The assessee company is noted to have obtained various loans for the purpose of business to the tune of Rs.150.89 Crs. and also claimed interest expenditure for the loans thus obtained. The AO taking note of the investment & advances given to M/s.TNMPL, presumed that the only source of monies for making advances/investment to the subsidiary M/s.TNMPL was from the business loan of Rs.150.89 Cr. And therefore, he was of the view that the assessee company had diverted the business loan for the purpose of non-business and had claimed proportionate interest expenditure on the advances/investment made in M/s.TNMPL which claim of expenditure was not allowable. Further, according to the AO, the ultimate aim of the assessee was for acquiring capital asset i.e. assessee company M/s.NMPL. And therefore, the proportionate interest @ 12.5% on the amount of investment in equity shares of Rs.19,62,46,913/- and advances of Rs.7,57,85,706/- was disallowed i.e. Rs.2,45,30,864/- and Rs.94,73,213/- total Rs.3,40,04,077/-. On appeal, the Ld.CIT(A) has confirmed the action of the AO.

9. The Ld.AR of assessee had assailed the action of the AO/Ld.CIT(A) on many fronts, but the main thrust of the contention of the assessee's Counsel is that the assessee company had enough own funds to invest in the wholly owned subsidiary M/s.TNMPL to the tune of Rs.19,62,46,913/- and advance of Rs.7,57,85,706/-. In order to buttress this contention, the Ld.AR drew our attention to Page No.168 of the Paper Book wherein the balance-sheet of the assessee company is found placed which shows that the assessee company had own funds of more than Rs.45 Crs. The relevant portion of the balance as on 31.03.2008 is reproduced as under:

THIRUVALLUVAR TEXTILES PRIVATE LIMITED				
BALANCE SHEET AS AT 31ST MARCH 2008				
SOURCES OF FUNDS	SCH.NO	CURRENT YEAR 31.03.2008 Rs.	PREVIOUS YEAR 31.03.2007 Rs.	
<u>SHARE HOLDERS FUNDS</u>	1	7,06,31,000	7,06,26,000	

SHARE CAPITAL			
SHARE APPLICATION MONEY	-	30,90,50,000	17,90,55,000
RESERVES AND SURPLUS	2	7,51,84,580	18,09,04,091
		45,48,65,580	43,05,85,091

10. From the aforesaid balance-sheet, we note that the assessee had own funds of more than Rs.45 Crs. and the investments made in the wholly owned subsidiary is only less than Rs.28 Crs. i.e. Rs.19,62,46,913/- **plus** Rs.7,57,85,706/- [total Rs.27,20,32,619/-] According to us, the AO/CIT(A) erred in not appreciating that assessee had own funds of more than Rs 14 crores and share application money of more than Rs 30 crores, which is interest-free available with the assessee as shown in the audited financials, which results have not been found to suffer from any defect or infirmities by the AO/CIT(A). Having accepted the books of assessee company, we find that the assessee company was in possession of mixed funds which includes its own funds in sufficient quantity, which factual finding of ours, in turn raises presumption that its own funds were utilized for making interest-free advance or investment in its subsidiary M/s.TNMPL . For such a preposition, we rely on the following Hon'ble High Courts decisions:

- CIT v. Reliance Utilities and Power Ltd. (2009) 313 ITR 340 (Bom)
- CIT v. Hotel Savera (1999) 239 ITR 795 (Mad)
- CIT v. TIN. Box Co. (2003) 260 ITR 637 (Del)

11. The ratio laid by the Hon'ble High Courts (supra) been concurred by the Hon'ble Apex Court in CIT (LTU) v. Reliance Industries Ltd., reported in 410 ITR 466 (SC) wherein it was held by their Lordships ' when interest-free funds was available with assessee is sufficient to meet investment, presumption is that investments in subsidiaries were out of interest-free funds and accordingly no disallowance u/s.36(1)(iii) of the Act was warranted". In this regard, it would be gainful to refer to the same principle followed by the ITAT Mumbai Tribunal, in the case of M/s. T. Bhimjyani Realty Pvt. Ltd., in ITA No.4901/Mum/2024 for AY 2018-19 vide order dated 16.01.2025, wherein the Tribunal held as under:

4.1. The second legal principle followed by Ld CIT(A) is that if the assessee is having both interest free funds and interest bearing borrowed funds, then the presumption is that the investments have been made first out of interest free funds. In that case, the disallowance u/s 36(1)(iii) of the Act shall not arise. It has been so

explained by Hon'ble Bombay High Court in the case of Reliance Utilities and Power (313 ITR 340)(Bom) as under:-

“10. If there be interest-free funds available to an assessee sufficient to meet its investments and at the same time the assessee had raised a loan it can be presumed that the investments were from the interest-free funds available. In ITA No. 4901/MUM/2024 our opinion the Supreme Court in East India Pharmaceutical Works Ltd.'s case (supra) had the occasion to consider the decision of the Calcutta High Court in Woolcombers of India Ltd.'s case (supra) where a similar issue had arisen. Before the Supreme Court it was argued that it should have been presumed that in essence and true character the taxes were paid out of the profits of the relevant year and not out of the overdraft account for the running of the business and in these circumstances the appellant was entitled to claim the deductions. The Supreme Court noted that the argument had considerable force, but considering the fact that the contention had not been advanced earlier it did not require to be answered. It then noted that in Woolcombers of India Ltd.'s case (supra) the Calcutta High Court had come to the conclusion that the profits were sufficient to meet the advance tax liability and the profits were deposited in the overdraft account of the assessee and in such a case it should be presumed that the taxes were paid out of the profits of the year and not out of the overdraft account for the running of the business. It noted that to raise the presumption, there was sufficient material and the assessee had urged the contention before the High Court. The principle therefore would be that if there are funds available both interest-free and overdraft and/or loans taken, then a presumption would arise that investments would be out of the interest-free fund generated or available with the company, if the interest-free funds were sufficient to meet the investments. In this case this presumption is established considering the finding of fact both by the CIT (Appeals) and ITAT.”

12. Therefore, in the light of the aforesaid findings of ours, it is found that the AO and the Ld.CIT(A) erred in making a finding that the assessee didn't had any own funds to invest/advance to its wholly owned subsidiary i.e. M/s.TNMPL, when the fact was that assessee had share application fund to the tune of Rs.30,90,50,000/- (more than Rs.30 Cr.) which in any case is interest free & share capital of Rs.7,06,31,000/- and reserve & surplus of Rs.7,51,84,580/- [total Rs.45,48,65,580/-] and therefore had sufficient own funds to make investment/advances to its subsidiary M/s.TNMPL. Thus, the AO erred in making proportionate disallowance of interest which action of the AO/Ld.CIT(A) is erroneous being perverse and therefore set aside and accordingly, the AO is directed to delete the additions made on this account in all the captioned appeals.

13. In the result, appeals filed by the assessee are allowed.”

30. In the present facts and circumstances of the case and respectfully following the decision of this Tribunal in assessee's own case (supra), we are of the considered opinion that the Assessing Officer as well as the Id.CIT(A) have erred in disallowing the interest for all the four A.Ys. i.e. Rs.2013-14, 2014-15, 2016-17 and 2017-18 and hence we set aside the orders of the Id.CIT(A) and direct the Assessing Officer to recompute the income of the assessee by allowing the interest expenditure as claimed in the financials for the respective assessment years.

31. The next ground of appeal raised by the assessee for the A.Y. 2014-15 is that the addition made u/s.56(2)(b)(viib) of the Act.

32. During the impugned assessment year the assessee had allotted preferential shares at a premium of Rs.400/- per share of Rs.100/- per share and collected Rs.31,04,80,000/- towards share premium. During the assessment proceedings the Assessing Officer questioned on this quantification of share premium, the assessee submitted that they have followed DCF method for arriving at the value of Shares at Rs.501.28 per share on the date of allotment and valuation is supported by a certificate from a chartered Accountant. However, on verification of the audited financial statements of the assessee compared to the projected profits of the valuation report for the financial year ending 31.03.2014 and 31.03.2015, the assessee had incurred losses of Rs.2098.59 lakhs and Rs.1455.16 lakhs against the projected profits after tax of Rs.2135.30 lakhs and Rs.2287.15

lakhs respectively. Therefore, the Assessing Officer added the entire share premium received of Rs.31,04,80,000/- as income from other sources u/s.56(2)(viib) of the Act.

33. Aggrieved by the order of the Assessing Officer, the assessee preferred an appeal before the Id.CIT(A) and submitted that the difference in the projections and the actual financials submitted was only due to following one of the methods for valuation of shares prescribed under the Act as per Rule 11UA and the assumptions made for the purpose of projections and valuation thereof cannot be rejected. In support of the same, the assessee relied upon the decision of the Hon'ble Apex court in the case of Hero Cycles (P) Ltd Vs.CIT (2015) 379 ITR 347. Further, the assessee also submitted valuation based on NAV method and arrived at a value of Rs.373.48 per share and requested to adopt the same.

34. However, the Id.CIT(A) has rejected the explanation given by the assessee and confirmed the addition made by the Assessing Officer stating that the assessee had not furnished the valuation report certified by the independent CA and also the valuation of shares based on NAV method by considering the market value of land and held as under:

*"13.2 I have carefully examined the assessment order, the grounds of appeal, and the written submissions made by the appellant. Upon examining the records, it is noted that the valuation certificate submitted by the appellant was prepared by the Chartered Accountant Firm **T Selvaraj & Co.** This same firm also serves as the statutory auditor for the assessee company and has conducted the audit of its financial statements. The rule regarding valuation clearly states that valuation report has to be prepared by an accountant who is not a*

statutory auditor for the company. The relevant rule applicable for the impugned assessment year is reproduced below:

"(a) "accountant" (i) for the purposes of sub-rule (2) of rule 11UA, means a fellow of the Institute of Chartered Accountants of India within the meaning of the Chartered Accountants Act, 1949 (38 of 1949) who is not appointed by the company as an auditor under section 44AB of the Act or under section 224 of the Companies Act, 1956 (1 of 1956); and (ii) in any other case, shall have the same meaning as assigned to it in the Explanation below sub-section (2) of section 288 of the Act.

13.3 According to the relevant rule applicable to the assessment year in question, the definition of an "accountant" under sub-rule (2) of Rule 11UA of the Income Tax Rules clearly states that an accountant must be a fellow member of the Institute of Chartered Accountants of India who has not been appointed as an auditor under Section 44AB of the Income Tax Act or under Section 224 of the Companies Act 1956. Since T Selvaraj & Co functioned both as the statutory auditor under Section 44AB and as the valuer, the valuation certificate prepared by them is not valid for determining the fair market value (FMV) of the shares. Consequently, the valuation and the share premium of Rs.400 per share, as reported by the appellant, cannot be accepted.

In an alternative submission, the appellant presented a valuation of shares using the Net Asset Value (NAV) method, arriving at a FMV of Rs.373.48 per share. However, while computing this value, the appellant considered the book value for all assets except land, which was instead taken at market value based on their own internal valuation reports. As per the valuation rules applicable during the relevant financial year, the FMV under the NAV method must be computed strictly using the book value of all assets, including land. Therefore, this alternate valuation method adopted by the appellant does not comply with the prescribed rules and cannot be accepted.

13.4 Additionally, the appellant has not provided any reasonable explanation or supporting empirical data to substantiate the valuation figures used in determining the FMV.

13.5 In light of the foregoing discussion and findings, the grounds of appeal numbered 4 and 5 are hereby dismissed."

35. Aggrieved by the order of the Id.CIT(A), the assessee is in appeal before us.

36. The Id.AR argued that the Id.CIT(A) erred in rejecting the valuation report solely on the ground that it was signed by the statutory auditor. It is

respectfully submitted that the report was prepared by a qualified Chartered Accountant, who, being an “accountant” within the meaning of Section 288(2) of the Act, is duly competent to issue such a valuation report under Rule 11UA.

37. Further, the Id.AR argued that the valuation is a matter of estimation and, once supported by a professional report based on prescribed methods, it cannot be discarded merely on the basis that the signatory also functions as statutory auditor. Further the Id.AR submitted that during the course of the appellate proceedings, the assessee submitted a valuation using NAV method. It is further submitted that the NAV computation was rejected merely because market value for land was considered instead of book value. The Id.AR also stated that it is pertinent to note that no contrary valuation was furnished by the Department during the course of proceedings, and in the absence of any alternative valuation report, the rejection of assessee’s valuation is arbitrary and unsustainable.

38. In light of the above submissions, the Id.AR prayed that the valuation report furnished by the assessee under the DCF method, being in accordance with Rule 11UA, be accepted as valid. It is therefore prayed that the addition made u/s.56(2)(viib) on account of alleged difference in valuation be deleted in full.

39. Per contra, the Id.DR for the revenue submitted that as accepted by the Id.AR the valuation report has been signed by the statutory auditor, which is not permitted under Rule 11UA, there is infirmity in the order of the Id.CIT(A). Furthermore, the valuation submitted based on the DCF method during the appellate proceedings has been prepared with the market value of land instead of the book values. Hence, there is no error in the order of the lower authorities and prayed for upholding the order of the Id.CIT(A).

40. We have heard rival submissions and perused the material available on record and gone through the orders of the authorities below. During the impugned assessment year the assessee had allotted preferential shares at a premium of Rs.400/- per share of Rs.100/- per share and collected Rs.31,04,80,000/- towards share premium. During the assessment proceedings the Assessing Officer questioned on this quantification of share premium, the assessee submitted that they have followed DCF method for arriving at the value of Shares at Rs.501.28 per share on the date of allotment and valuation is supported by a certificate from a chartered Accountant. The Assessing Officer has made addition of entire premium amount as income from other sources by comparing the actuals with the earlier years projections made in the valuation report submitted by the assessee. However, the Id.CIT(A) has confirmed the Assessing Officer's order stating that that the assessee had not furnished the valuation report

certified by the independent CA and also the valuation of shares based on NAV method by considering the market value of land.

41. We find that the assessee submitted the valuation of shares using the Net Asset Value (NAV) method arriving at a FMV of Rs.373.48 per share during the appellate proceedings before the Id.CIT(A). However, Id.CIT(A) rejected the same for the reason that the assessee has adopted the value of land based on the market value instead of book value and confirmed the addition of entire share premium of Rs.31,04,80,000/- under the head income from other sources. In the present facts and circumstances, we are of the view that both the lower authorities have rejected the assessee's claim based on technicalities but not on merits. However, we agree with the Id.CIT(A) that the assessee has obtained the valuation report from the statutory auditor, which is not permitted as per the definition of 'accountant' for the purpose of Rule 11UA of Income Tax Rules. Therefore, in the interest of equity and justice, we are of the considered view that the Id.CIT(A) has erred in rejecting the valuation of shares on NAV method for the reason that the assessee had adopted the market value of the land instead of book value. Hence, we set aside the order of the Id.CIT(A) on this matter and direct the assessee to file a revised valuation report considering the book value of the land and submit before the Assessing Officer. Further, we direct the Assessing Officer to recompute the income of the assessee after considering the revised valuation report based on the book value of the asset, which will

be submitted by the assessee in accordance with our direction by allowing the corresponding grounds of the appeal raised by the assessee.

42. Since the assessee has not pressed all other grounds of appeal raised, we are dismissing the same as not pressed.

43. In the result, the appeal of the assessee is allowed for A.Y.2013-14 in ITA No.1734/Chny/2025, 2016-17 in ITA No.1736/Chny/2025 and 2017-18 in ITA No.1737/Chny/2025 and partly allowed for the A.Y.2014-15 in ITA No.1735/Chny/2025.

Order pronounced in the court on 04th November, 2025 at Chennai.

Sd/-

(जॉर्ज जॉर्ज के)
(GEORGE GEORGE K)
उपाध्यक्ष /VICE PRESIDENT

Sd/-

(एस. आर. रघुनाथा)
(S.R.RAGHUNATHA)
लेखा सदस्य/ACCOUNTANT MEMBER

चेन्नई/Chennai,

दिनांक/Dated, the 04th November, 2025

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आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT– Chennai/Coimbatore/Madurai/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF