

**IN THE INCOME TAX APPELLATE TRIBUNAL, 'I' BENCH  
MUMBAI**

**BEFORE: SHRI AMIT SHUKLA, JUDICIAL MEMBER  
&  
SHRI PRABHASH SHANKAR, ACCOUNTANT MEMBER**

**ITA No.2429/Mum/2025 & 2430/Mum/2025  
(Assessment Year :2016-17 & 2017-18)**

Asst. Commissioner of Income Tax Room No.605, 6 <sup>th</sup> Floor Kautilya Bhavan BKC, Mumbai	Vs.	DBS Bank Limited 3 <sup>rd</sup> Floor, Fort House 221, DR D.N. Road Fort, Mumbai- 400 001
<b>PAN/GIR No.AAACT4652J</b>		
<b>(Appellant)</b>	..	<b>(Respondent)</b>

Assessee by	Shri Madhur Agarwal / Shri Fenil Bhatt
Revenue by	Shri Krishna Kumar, Sr. DR
<b>Date of Hearing</b>	<b>08/10/2025</b>
<b>Date of Pronouncement</b>	<b>18/11/2025</b>

**आदेश / O R D E R**

**PER AMIT SHUKLA (J.M):**

The aforesaid appeals have been filed by the Revenue against order dated 31/12/2024 passed by CIT(A)-56, Mumbai for the A.Y.2016-17 and 2017-18 with respect to quantum of assessment passed u/s.143(3) r.w.s. 144C.

2. In both the years the common grounds raised by the Revenue are as under:-

1. Ground "Whether on the facts and in the circumstances of the case and in law, the Ld. CTT(A) was correct in holding that the RBI Guidelines with regard to revitalizing distressed assets in the in the economy could be imported into the scheme of Chapter IV part D to determine the Profit & Gains from Business or Profession by allowing the assessee to write off restructured instead actual debt determined in books of account based on transaction between the assessee and the debtor

2. Whether on the facts and in the circumstances of the case and in law, the Ld. CIT(A) was correct in allowing the assessee's contention of write off enhanced debt instead of the actual debt as existing in the books of the assessee

3. Whether on the facts and in the circumstances of the case and in law, the Ld. CTT(A) was correct in allowing the grant of the assessee by ignoring the decision of the Hon'ble Bombay High 3 Court in the case of TN Power Financial & Infrastructure Development Corporation Ltd. Vs Joint CIT and the Hon'ble Supreme Court in the case of Southern Technology (320 ITR 57)

3. Since the issues involved in both the appeals are common arising out of almost identical set of facts, therefore, same were heard together and are being disposed off by way of this consolidated order. We will first take up the appeal in ITA No.2429/Mum/2025 for A.Y.2016-17.

4. The brief facts are that assessee is a banking company engaged in the ordinary business of lending. It had advanced loans to 3i Infotech Ltd. and, pursuant to a Corporate Debt Restructuring scheme, a portion of the outstanding loan of ₹33.50 crores was compulsorily converted into 1,69,70,618 equity shares of the borrower. Although these shares were allotted on 8 October 2015 at a preferential issue price of ₹19.74 per share, they were credited into the assessee's

Demat account only on 27 November 2015, on which date the market price stood substantially lower at ₹3.95 per share. This resulted in a diminution of value of ₹26.79 crores, out of which ₹16.75 crores represented overdue interest, leaving a net loss of ₹10.04 crores on the conversion of debt.

5. The assessee submitted that the loss represents erosion in the value of an existing receivable and is, in substance, a bad debt written off in the books during the year. It was contended that the AO erred in treating the amount as a capital loss, since a loan is not a capital asset in the hands of a bank, and its conversion into shares merely reflects the mode of restructuring. The receivable continues to remain in the nature of circulating capital or stock-in-trade of a banking business.

6. Without prejudice, the assessee argued that even if not viewed as a bad debt, the loss is allowable as a business loss under section 28 or alternatively as business expenditure under section 37(1). The diminution in value of securities held as available-for-sale, as per prevailing RBI guidelines, accounting standards applicable to banks, and the ICDS framework, is recognised through the profit and loss account and is allowable as deduction.

7. The ld. AO disallowed the claim after observing as under:-

**“3.3 I have carefully considered the submissions of the assessee. The assessee has written off the bad debt of Rs.125.23 Crs which is allowable u/s 36(1)(vii) of the Income tax Act. However in respect of loss on conversion of debt of Rs**

10.04, the assessee's contentions are not tenable. From the limited facts disclosed by the assessee it can be seen that the value of shares allotted to assessee at the preferential Issue price was exactly the same as loan amount. Hence the loan was converted into purchase price of the shares. The erosion of share price after listing cannot be said a bad debt. Such loss is nothing but capital loss. The reference of RBI's guideline is not tenable as the Hon'ble Madras High Court in the case of TN Power Financial & Infrastructure Development Corporation Ltd. Vs Joint CIT has held that the RBI guidelines cannot over-ride statutory provisions of Income tax Act.(280 ITR 491). The Hon'ble Supreme Court in the case of Southern Technology (320 ITR 57) has held that RBI Directives do not override the provisions of the I.T.Act. Further assessee's claim that such shares were trading stock of bank is also not acceptable as assessee is in banking business and it has never placed any evidence that it also engaged in trading of shares and stock. The DBS FII is another arm of the DBS Bank which has separate entity for tax purposes. The assessee made alternate plea that if these claims are not allowable u/s 36(1)(vii) then it should be allowed under general provisions of section 37(1) of the Income tax Act. However this plea of assessee is not tenable. If any expense is covered under section 30 to section 36 of the Income tax Act 1961 and could not be allowed due to non satisfying condition laid down under section, same cannot be allowed under the residuary section i.e. section 37 of the Income tax Act. Further the loss claimed by assessee cannot be allowed as neither it is an expenditure nor deduction under these provisions. For claim u/s 37 of the Income tax Act the expenses should be incurred wholly and exclusively for the purposes of assessee's business or profession. This is capital loss and not an expenditure which can be allowable. Hence assessee's alternate plea is also not correct and not as per law. Accordingly loss on conversion on loans to equity shares and loss on sale of NPA claimed in the computation of income is disallowed and added back to the total income of assessee."

8. The ld. CIT(A) after considering the entire submissions noted that this issue has been decided in favour of the assessee in A.Y.2015-16 and directed to delete the addition after observing as under:-

*“8.5 Decision: I have gone through the submissions made by the appellant. An identical matter is held in favour of appellant in the order passed by Hon'ble ITAT in the appellant's own case for AY 2015-16. The Hon'ble ITAT has analysed the issue of allowability of loss on conversion of debt and it has held that the loss on reduction in market value of shares exchanged for outstanding debt is business loss and deserves to be allowed. With respect to AO's reliance on the SC decision in the case of Southern Technologies, the Hon'ble ITAT has held that the judgment of the Hon'ble Supreme Court show that it was delivered totally on different facts and on a different context. Therefore in our considered opinion the same is not applicable to the facts of the case in hand. With regard to AO's reliance upon the decision of the Hon'ble Madras High Court in the case of Tower finance infrastructure Development Corporation Limited v JCIT (supra) the Hon'ble ITAT held that this decision is on a different context in respect of the provision for bad and doubtful debts whereas the claim of the assessee is actually write off of bad debts and not provision. Accordingly, the Hon'ble ITAT allowed the claim as a bad debt is as per the provisions of the Act and also allowable as a business loss Facts and circumstances remaining similar for the year under consideration, following the decision of the jurisdictional ITAT, this Ground No. 3 is allowed and the AO is directed to delete the addition. The ground No.3 is allowed.”*

9. Before us ld. Counsel for the assessee further placed on record that in its own case for AY 2015-16, the Hon'ble ITAT has accepted an identical claim, arising from similar facts, and has held the loss on reduction in market value of shares exchanged for outstanding debt to be allowable as a business loss or bad debt. The assessee urged that the present year's claim stands on identical footing and merits similar treatment.

10. We have carefully considered the material placed on record, the submissions of the learned counsel for the

assessee and the reasoning given by the Assessing Officer and the learned CIT(A). The short controversy is whether the amount of Rs. 10.04 crores written off by the assessee bank on account of conversion of an outstanding loan into equity shares of the borrower can be denied as a deduction on the footing that it is a capital loss.

11. The relevant facts are not in dispute. The assessee, a scheduled bank, had granted term loan to 3i Infotech Limited. Pursuant to a Corporate Debt Restructuring package approved for the borrower, a part of the outstanding loan of Rs. 33.50 crores was compulsorily converted into 1,69,70,618 equity shares of the said company. These shares were allotted on 8 October 2015 at a preferential issue price of Rs. 19.74 per share but were actually credited in the Demat account of the assessee only on 27 November 2015. On that date the market price of the shares was Rs. 3.95 per share which was substantially lower than the issue price and the carrying value of the corresponding receivable. After adjusting the component of overdue interest, the assessee recognised a net loss of Rs. 10.04 crores on such conversion and wrote off the said amount in the profit and loss account as bad debt.

12. In the assessment order the Assessing Officer treated the loss as a capital loss on the reasoning that, once the loan was converted into equity shares, what the assessee held was an investment and any diminution in its value was on capital account. He also rejected the alternate pleas of the assessee under sections 28, 36 and 37 of the Act.

13. The learned CIT(A) following the order of the Tribunal for A.Y.2015-16, allowed the claim of the assessee..

14. On a careful appreciation of the nature of banking business and the scheme of restructuring, we are unable to agree with the view of the Assessing Officer. The loan in question was part of the circulating capital of the assessee bank. It was extended in the ordinary course of its business of lending and was treated as a performing advance till the financial stress of the borrower necessitated restructuring. The subsequent conversion of a portion of this loan into equity shares did not represent any fresh investment decision by the bank. It was a compelled measure under the restructuring package designed to maximise the recovery of a doubtful asset. The substance of the transaction therefore remains that a receivable of the bank, which had already suffered impairment, came to be substituted by an asset of lower realisable value.

15. In the business of banking, loans and advances, as well as securities acquired in substitution of such advances, are held as circulating assets or stock in trade of the business. The prudential and accounting norms applicable to banks recognise this commercial reality and mandate that such assets are to be classified and valued on the basis of their recoverability, with diminution in value being routed through the profit and loss account. The assessee has followed this norm. The loss of Rs. 10.04 crores is nothing but the crystallisation, on the date of credit of shares in the Demat account, of the erosion in value of an existing loan asset. The

assessee had no option either as to the mode of restructuring or as to the date on which the shares were received. The diminution was real and irreversible and has been recognised in the books as such.

16. Once these features are appreciated, it becomes clear that the impugned amount has all the attributes of a bad debt. The original loan was taken into account in computing the income of the assessee in earlier years. Upon restructuring and conversion, to the extent the substituted asset fell short of the carrying value of the loan, the unrecoverable portion was written off in the accounts as irrecoverable. The statutory requirement for allowance of bad debt under section 36(1)(vii) read with section 36(2) thus stands fulfilled. The character of the loss is not altered merely because the erosion becomes evident on the date on which shares are credited in the Demat account of the bank.

17. Even if the matter is viewed from a slightly different angle, the same conclusion follows. The assessee is in the business of banking; losses incurred in the process of restructuring non performing or stressed assets are incidental to that business. The difference between the carrying amount of the loan and the realisable value of the substituted security represents a business loss arising directly from banking operations. Such a loss is clearly allowable while computing profits and gains of business under section 28 of the Act. In the further alternative, to the extent the write off is regarded as diminution in value of securities held as current assets, it also bears the character of business expenditure laid out

wholly and exclusively for the purpose of banking business and is supportable even under section 37(1).

18. We also note that in the assessee's own case for an earlier assessment year, on broadly similar facts arising from a comparable restructuring of advances, the co-ordinate bench of the Tribunal has accepted the assessee's claim of deduction in respect of loss on conversion of debt. For the sake of ready reference, the relevant portion of that order is reproduced herein below for incorporation in the final order.

*15 Ground Nos 6 to 8 relates to the denial of deduction for bad debts written off Rs.3,28,68,000/-u/s 36(1)(vn) rws. 36(2) of the Act and also u/s 37(1) of the Act.*

*15.1 The underlying facts in the issue show that the assessee had Rs 162.75 Crores worth of loan outstanding from its customer PSL Limited which signed a Master Restructuring Agreement dated 19/11/2013 with the monitoring bank and various banks and financial institutions as CDR lenders Pursuant to a scheme of Corporate Debt Restructuring (CDR), of the company, a part of loan amounting to Rs 783 Crores was converted into 30,15,380 equity shares of PSL Limited These shares were allotted by the company on 30/12/2014 and were credited into the assessee's D-Mat account on 06/02/20215. These shares were issued to assessee on preferential basis @ Rs 26/- per share fully converting the loan of Rs.7.83 Crores into equity shares of Rs.10/-each. However, when the shares were credited into the D-Mat account, the market value was Rs.15.1/- per share, thereby giving a loss of Rs.3.29 Crores which was claimed as loss on account of bad debt.*

*15.2. Referring to the analysis given for the denial of bad debt write off of NPA of Rs.427.46 Crores considered vide Ground No. 1 to 5 above, the AO also denied the claim of this loss on conversion of debt*

*15.3. When the matter was agitated before the Id. CIT(A), the assessee could not get any success*

16 Before us, the Id Counsel for the assessee reiterated its claim of loss on conversion of debt to equity share u/s 36(1)(vii) of the Act and in alternative claimed it as a loss incurred in the ordinary course of business u/s37(1)/u/ s28 of the Act

Per contra the Id D/R strongly supported the findings of the Id CIT(A) and read the operative part

17. We have given a thoughtful consideration to the orders of the authorities below. The claim of loss can be understood from the following chart-

A	Loan Outstanding	7.84
B	No. of Shares issued on 30 December 2014	30,15,380
C	Value of Shares at the Preferential Issue price @INR 26 each	7.84
D	Date of Receipt of Shares by Bank in Demat Account	06 <sup>th</sup> Feb, 2015
E	Closing Price of shares on 06 <sup>th</sup> Feb 2015 on NSE In response to the 15.1 each (Refer Annexure to this Note)	4.55
F	Loss on Conversion of Loan (C)-(E)	3.29

17.1. On perusal of the aforementioned chart in a very simple analysis, the assessee had assets of Rs.7.84 Crores (being loan outstanding). The assessee was assigned assets, market value of which was Rs.4.55 Crores (being price of shares on NSE on the date of credit in the D-Mat account) Thus, the assets of Rs.7.84 Crores was exchanged for another asset for Rs.4.55 Crores and hence the loss of Rs.3.29 Crores, which is nothing but a business loss and deserves to be allowed

18. The reasons for denial of the claim have been considered while deciding Ground Nos. 1 to 5 (supra) and for our detailed reasoning therein, this claim of loss is also allowed Ground Nos. 6 to 8 are accordingly allowed.

19. In view of the above discussion, and bearing in mind the consistency of approach required in dealing with the banking

business of the assessee, we find no justification for sustaining the disallowance made by the Assessing Officer. The loss of Rs. 10.04 crores represents a genuine business loss or bad debt arising from the ordinary course of banking operations and is fully deductible under the Act. We therefore, direct that the disallowance of Rs. 10.04 crores be deleted and the ground of appeal is allowed.

**20. In the result, appeal of the assessee is allowed.**

Order pronounced on 18<sup>th</sup> November, 2025.

**Sd/-**  
**(PRABHASH SHANKAR)**  
**ACCOUNTANT MEMBER**

Mumbai; Dated 18/11/2025  
KARUNA, *sr.ps*

**Sd/-**  
**(AMIT SHUKLA)**  
**JUDICIAL MEMBER**

**Copy of the Order forwarded to :**

1. The Appellant
2. The Respondent.
3. CIT
4. DR, ITAT, Mumbai
5. Guard file.

//True Copy//

BY ORDER,

(Asstt. Registrar)  
**ITAT, Mumbai**