

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

**BEFORE: SHRI AMIT SHUKLA, JUDICIAL MEMBER
&
SHRI GIRISH AGRAWAL, ACCOUNTANT MEMBER**

**ITA No.2640/Mum/2025 to 2646/Mum/2025
(Assessment Year :2013-14 to 2019-20)**

Lloyds Metals And Energy Limited A-2, 2 nd Floor Madhu Estate Pandurang Budhkar Marg, Lower Parel (W) Mumbai-400 013	Vs.	Dy. Commissioner of Income Tax, Central Circle 7(1), Mumbai
PAN/GIR No.AAACLO830E		
(Appellant)	..	(Respondent)

**ITA No.3075/Mum/2025 to 3080/Mum/2025 &
3094/Mum/2025
(Assessment Year :2013-14 to 2019-20)**

Asst. Commissioner of Income Tax, Central Circle 7(1), Mumbai	Vs.	Lloyds Metals And Energy Limited A-2, 2 nd Floor Madhu Estate Pandurang Budhkar Marg, Lower Parel (W) Mumbai-400 013
PAN/GIR No.AAACLO830E		
(Appellant)	..	(Respondent)

**ITA No.2855/Mum/2025 & 2856/Mum/2025
(Assessment Year :2013-14 & 2015-16)**

**&
CO No.137 to 139/Mum/2025
(Arising out of ITA Nos.3072/Mum/2025 to
3074/Mum/2025)**

Lloyds Enterprises Limited (formerly known as Shree Global Tradefin Limited) A-2, 2 nd Floor Madhu Estate Pandurang Budhkar Marg, Lower Parel (W) Mumbai-400 013	Vs.	Dy. Commissioner of Income Tax, Central Circle 7(1), Mumbai
PAN/GIR No.AAACB2975J		
(Appellant)	..	(Respondent)

**ITA No.3070/Mum/2025 to 3074/Mum/2025
(Assessment Year :2013-14 & 2015-16 to 2018-19)**

Asst. Commissioner of Income Tax, Central Circle 7(1), Mumbai	Vs.	Lloyds Enterprises Limited (formerly known as Shree Global Tradefin Limited) A-2, 2 nd Floor Madhu Estate Pandurang Budhkar Marg, Lower Parel (W) Mumbai-400 013
PAN/GIR No.AAACB2975J		
(Appellant)	..	(Respondent)

Assessee by	Shri Vijay Mehta & Shri Tarang Mehta
Revenue by	Shri Rajesh Kumar Yadav – CIT DR & Shri Surendra Mohan, Sr. DR
Date of Hearing	19/11/2025
Date of Pronouncement	27/11/2025

आदेश / O R D E R**PER BENCH:**

These cross appeals by the assesseees as well as by the Revenue arise from separate but materially similar orders passed by the learned Commissioner of Income Tax (Appeals)-49, Mumbai, in the cases of Lloyds Metals and Energy Limited and Lloyds Enterprises Limited, for Assessment Years 2013-14 to 2019-20. The assessments in all these years have been framed under section 143(3) read with section 153C of the Income Tax Act, 1961, pursuant to search and seizure action in a connected group case, and the impugned orders deal with common issues concerning the nature of alleged bogus purchases and sales, rejection of books, estimation of additional income, and disallowance of indirect expenditure.

2. At the very threshold, it was fairly admitted by both sides that the issues in all these appeals, for all the years and in respect of both assesseees, are identical, emanate from the same search and post search investigation, and rest on an overlapping set of findings recorded by the Assessing Officer and the learned CIT(A). It was further pointed out by the learned counsel for the assessee that the core controversy is now no longer res integra, since the same group concerns, on identically worded findings and on the basis of the same search material, have already been adjudicated upon by this Tribunal in the case of M/s Indrajit Properties Private Limited, wherein the Tribunal, by consolidated order dated 22 August 2025 in a bunch of appeals for Assessment Years

2013–14 to 2019–20, has decided the issues in favour of the assessee. In view of this, and for the sake of clarity, convenience and ready reference, we treat ITA No. 3076/Mum/2025 for Assessment Year 2013–14 in the case of Lloyds Metals and Energy Limited as the lead case and our discussion hereunder shall mutatis mutandis govern all the connected appeals and cross-objections.

3. In the appeals of the Revenue in the case of Lloyds Metals and Energy Limited for the year under consideration, the common grounds raised assail the relief granted by the learned CIT(A) and, shorn of verbiage, can be summarised but are required to be noticed in extenso, since they delineate the Revenue's entire case. The Revenue has, in substance, contended as under:-

- That, on facts and in law, the learned CIT(A) erred in allowing the assessee's appeal and in disregarding the rejection of books of account under section 145 of the Act, even though, according to the Assessing Officer, the non genuineness of the transactions and the absence of supporting documents justified such rejection.
- That the learned CIT(A) failed to appreciate that the Assessing Officer had, in the course of search and assessment proceedings, marshalled statements under oath and other corroborative evidences indicating that the assessee was allegedly engaged in providing accommodation entries, and that the transactions recorded in the books were not genuine.

- That the learned CIT(A), in upholding the assessee's contention that the books were correct and complete, overlooked the assessee's failure to furnish basic business records such as stock registers, purchase and sales invoices, movement registers, inward and outward records, as also transport documents, which, in the Revenue's view, fortified the Assessing Officer's invocation of section 145(3).
- That the learned CIT(A) erred in reducing the additional income from seven percent to zero point five percent of turnover, notwithstanding the Revenue's assertion that the assessee, by engaging in alleged high risk accommodation entry activity, would reasonably have earned commission income at a much higher rate estimated by the Assessing Officer.
- That the learned CIT(A) did not duly consider the alleged high level of risk in facilitating LC funding and booking of accommodation entries, thereby, according to the Revenue, unjustifiably reducing the estimated commission rate to a mere zero point five percent of turnover, which was said to be inconsistent with the performance of similar entities.
- That the learned CIT(A) failed to appreciate the legal position, as per judicial precedent including CIT v. State Trading Corporation of India Limited, that once books of account are rejected under section 145(3), the Assessing Officer is the best judge to estimate income and, therefore, his estimation ought to have been sustained.
- That the learned CIT(A) erred in holding that indirect and other expenses claimed by the assessee should be allowed as deduction, despite the Revenue's allegation that the overall activities were bogus and illegal.

- That the learned CIT(A) failed to appreciate the Revenue's plea that the assessee's alleged business was based on false and fabricated transactions, and consequently any expenditure relatable to such activities could not be allowed under section 37.
- That the learned CIT(A) overlooked the allegation that the assessee had contravened provisions of the RBI Act, the Money Lenders Act and the Income Tax Act by diverting LC funds through paper transactions, so that, in the Revenue's view, expenses linked to such activities should not have been allowed.
- That the learned CIT(A) failed to properly consider the earlier findings of the Assessing Officer that lending entities formed part of a network indulging in bogus circular trading and that loans were merely accommodation entries; and that the assessee has reserved liberty to add, alter or amend grounds and file further submissions.

4. In the cross appeals and cross objections of the assesseees, the principal issue raised is the challenge to the very validity of the assumption of jurisdiction under section 153C and, on merits, to the addition sustained by the learned CIT(A) by estimating additional income at zero point five percent of the alleged bogus sales. It is the assesseees' case that even such estimation is unwarranted on the facts and in law, in the absence of any incriminating material evidencing undisclosed income over and above what stands disclosed in the regular books.

5. Turning to the factual backdrop, the brief and undisputed facts are that a search and seizure operation under section 132 was conducted on 17 April 2018 in the case of Jatia Group and other related concerns, including entities belonging to Topworth Group, Uttam Galva Group and Lloyds Group. The action extended to business as well as residential premises of the directors. Based upon material seized and statements recorded in the course of such action, and upon subsequent post search investigation, the Assessing Officer recorded satisfaction that certain documents seized related to and belonged to the present assessees, and accordingly proceedings were initiated and completed under section 153C for the years under consideration.

6. The assessment order in the lead case unfolds a detailed narrative based on seized tally data, statements recorded under sections 132(4) and 131, physical verification of premises, LC documentation and banking trails. The Assessing Officer painstakingly records that, in his view, a discernible pattern emerged of alleged circular trading and accommodation entries amongst group entities. At the core of the Assessing Officer's findings is the allegation that none of the searched entities, including the assessees now before us, could demonstrate the usual trail of documents that would attend genuine trading transactions in iron and steel. According to him, there were no delivery challans, no lorry receipts, no weighment slips, no inward or outward registers, no confirmations and no supporting documents evidencing movement of goods. The seized tally books allegedly revealed

back to back entries of purchases and sales between entities of the group and other so called paper companies, with matching quantities and dates, which led the Assessing Officer to infer that the transactions were mere accounting entries designed to circulate funds and to avail LC facilities rather than genuine commercial trades.

7. The Assessing Officer further noted that, during the course of search, statements under section 132(4) were recorded from key individuals such as Shri Narsingh Vijay Dhawale, Shri Chetan Mehta and Shri Vinod Jatia, who, according to the Assessing Officer, made admissions regarding bogus sales and purchases, circular trading and LC driven accommodation entries. The Assessing Officer also referred to physical verification of premises, where he found, as per his description, absence of stock, infrastructure or machinery commensurate with the alleged large scale trading in metals. Examining the seized digital data, he observed that mirror image entries appeared in various entities' books, and LC backed invoices were being discounted and funds circulated in a pre determined manner. On such foundation, the Assessing Officer concluded that the assesseees were engaged in the business of providing accommodation entries and that the purchases and sales recorded in their books were non genuine.

8. It is in this background that the Assessing Officer issued a detailed show cause notice to the assesseees, calling upon them to demonstrate the genuineness of purchases and sales

and to furnish a host of primary evidences such as purchase orders, sales orders, stock registers, transport details, lorry receipts, weighment slips, details of manufacturing, storage and warehousing arrangements, quality check documents, and the like. The assessee, while furnishing ledger accounts and certain sample invoices, were, according to the Assessing Officer, unable to furnish the underlying movement and control records which, in his view, would ordinarily be expected in the course of a real trading business of this magnitude. On this premise, the Assessing Officer invoked section 145, rejected the books of account as not reflecting a true and fair picture of the assessee's business, financial position and performance, and proceeded to estimate additional income. At this juncture, in the original assessment order, the Assessing Officer reproduced, at great length, his detailed reasoning, the various deficiencies noticed, the statutory provisions relied upon, and the final working of the estimated addition.

9. Thereafter, Id. AO has incorporated various statements recorded on oath to corroborate such evidences. He has also incorporated various dates extracted from seized material and corroborative evidence and modus operandi to generate funds through LC etc., After confronting all these materials, he noted that these companies have made various transaction with such entities which reflected bogus purchases and bogus sales thereafter, he gave detailed show-cause notice in response to which assessee had submitted ledger copy with related parties however, he noted that assessee had not

produced any documents relating to loading, vehicles numbers, receipt of loading charges, truck bill / lorry receipts etc., Thus, he concluded that there is no genuine business. Finally, he estimated the net profit paid after observing and holding as under:-

“During the course of assessment proceeding, the assessee company was asked to submit the details in order to verify the purchases and sales transactions entered in the BOAs by the assessee company It was also asked to explain the genuineness of these transactions. However, till date the assessee has not submitted any supporting document, except for the ledger accounts, in order to substantiate the purchases and sales transactions recorded. It appears that the assessee is not in possession of even basic and immediate documents like stock register, purchase invoice, sales invoice, goods inward receipt or document for outward movement of goods.

During the course of search action, it was found that the Vinod Jatia Group has been indulging in large scale booking of bogus entries running into crores of rupees by way of bogus sales & purchases through paper/shell entities of Topworth, Uitam Galva and Lloyds Group of Companies. These transactions were done to avail the L/Cs (Letter of Credit) from the various banks, to artificially increase turnover of group companies, and to earn commission income. To know the genuineness of these transactions and creditworthiness of these entities, further survey action u/s 133A of the IT. Act, 1961 was conducted on some of these entities On the basis of statements under oath and corroborative evidences gathered during search & seizure action, post search investigation and assessment proceedings in the case of searched entities, it is established that assessee is engaged in the practice of availing bogus sales & purchases entries from other companies (including from the assessee company).

In this regard, some noteworthy facts in the case of the assessee company are as follows-

- *The assessee company has consistently been manipulating the purchases and sales which are not ruled by the prevalent market forces but are centric to the assessee comp's pre-calculated strategies.*
- *All the vendors and customers were potentially related amongst themselves on the basis of Common Key managerial person/common signatories/Common address*
- *The assessee could not furnish either purchase/ sales invoice and documents evidencing actual material movement describing the particulars of the materials allegedly bought and sold and manner of real physical movement of material*
- *No documentary proof except for the ledger account sand sample invoices have been furnished during the assessment proceedings*
- *All the above facts prove that the assessee company is nothing but an accommodation entry provider, who incorporate bogus purchase and bogus sales, without backed by any genuine delivery of goods or services.*

Further, the assessee company has entered into bogus purchase and sale transactions with searched entities. Therefore, based on the various kinds of evidence gathered (during search, post-search and assessment proceedings) in the case of searched entities, satisfaction was recorded by the AO of the assessee company that purchase and sale transactions of the assessee company with searched entity in particular and other transactions of the assessee company are bogus in nature. During the assessment proceedings u/s 153C, the findings got further reinforced by nature of compliance & the facts and circumstances of the case

During the course of assessment proceedings following details were called from the assessee however these remained unsupplied

- *Details and documents On how the sale or purchase transaction was negotiated like quotations, proforma invoice,*
- *details of Factory where the material got manufactured*
- *Company or the brand name under which the material is packed*
- *Details and documents of storage/ Warehousing*
- *details and documents of loading like place of loading, date of loading, Vehicle number in which loaded, receipt of loading charges, truck bilty/Lorry receipt,*
- *Details and documents of transportation like packing list, ewaybill, Bill of Inding. Details of change in mode of transport,*
- *details and documents of unloading like place of unloading, date of unloading, receipt of unloading charge. Vehicle numbers,*
- *Details and documents regarding how the quality of the products ensured Like quality check certificates*
- *Details and documents of use of the purchased item like if traded then details of sale or if used as raw material then details of sale of manufactured item*
- *Details and documents of manufacturing of sold item like Quantity and name of raw material used*

Even basic details like Purchase order, Sales order, Weighment Slip, Lorry receipts or any other form of communication on the basis of which the orders were placed/delivered were found to be unavailable

There is no evidence to substantiate whether any communication ever took place between the searched entities and its vendor and customer during the trade In general business practice, parties do interact to exchange quotations,

agreements, follow ups etc vide emails, facsimile or letters sent through courier or registered post.

During 153C proceedings in the case of the assessee company, the assessee company has furnished any supporting document to substantiate the entries recorded in BOAs, hence the assessment has to be completed after taking into account all relevant material which has been gathered for making the assessment, of the total income or loss and determine the sums payable by the assessee. Following the settled position of law, in my considered opinion as discussed in earlier paragraphs, the purchases and sales made by the assessee are not verifiable or non-genuine. The assessee failed to substantiate the genuineness of these purchases and sales made by it which apparently proves that the assessee is engaged in providing bogus accommodation entries, without conducting any actual business activity

Based on the various kinds of evidence gathered (during search, post-search and assessment proceedings) in the case of searched entities, and as established through the findings of current assessment proceedings, the purpose of bogus purchase and sale transactions was:

- To get accommodation entries to enhance the turnover of itself*
- To provide accommodation entries to other entities to enhance the turnover*
- To earn commission (income (by whatever name it is called) when accommodation entries were provided*
- To route LC facility funds to beneficiary companies for getting commission income (by whatever name it is called)*
- To earn profit (by whatever name it is called)*

Since, these transactions were done to earn unaccounted commission (by whatever name called) therefore unaccounted commission was paid received and corresponding to bogus entries made in books of accounts.

Further any expenditure on account of unaccounted commission is not allowable as per section 37 of the Act. Relevant portion is extracted below

"37. (1) Any expenditure (not being expenditure of the nature described in sections 30 to 36 and not being in the nature of capital expenditure or personal expenses of the assessee), laid out or expended wholly and exclusively for the purposes of the business or profession shall be allowed in computing the income chargeable under the head "Profits and gains of business or profession"

Explanation 1 For the removal of doubts, it is hereby declared that any expenditure incurred by an assessee for any purpose which is an offence or which is prohibited by law shall not be deemed to have been incurred for the purpose of business or profession and no deduction or allowance shall be made in respect of such expenditure.

In view of the above circumstances, it is abundantly clear that the Books of Accounts (BOAS) do not represent the true and fair picture of the assessee company's income, financial performance and financial position.

Thus, the books of accounts of the assessee cannot be treated as correct or complete giving rise to distorted income of the assessee. Thus, I am not satisfied about the correctness of completeness of the accounts of the assessee

In the view of the facts discussed, the books of assessee though audited, however the same are not found satisfactory. Further, the correctness of the books and its completeness is not satisfactory since the assessee has failed to produce the same (alongwith necessary documents) during the assessment proceedings. In this regard relevant portion of section 145 is reproduced hereunder

Method of accounting 145

(3) Where the Assessing Officer is not satisfied about the correctness or completeness of the accounts of the assessee, or where the method of accounting provided in sub-section (1) has

not been regularly followed by the assessee, or income has not been computed in accordance with the standards notified under sub-section (2), the Assessing Officer may make an assessment in the manner provided in section 144

Accordingly, the book of accounts of the assessee are rejected under the provision of Section 145 of the Income Tax Act, 1961. The assessee is involved in providing purchases accommodation bills, sales accommodation bills and misusing LC funding facility

The assessee company has total turnover of Rs 7592021599/- for the assessment year under consideration. Total bogus purchase with the searched entities is Rs557001849/- and total bogus sales with the searched entities are Rs382229529/- For the purpose of estimation of income, the higher of the two being Rs 557001849/ is considered

After considering the overall facts and circumstances, the assessee's income is considered @ 5% of Rs557001849/- The above estimate gets further vindicated by a judgement of the Honourable Madras Court in the case of CIT vs. Rayala Corporation (P) Ltd. (Mad) 215 ITR 883, wherein the Hon'ble Court adjudicated that best judgement assessment is valid so long as the estimate made by Assessing officer is not arbitrary and has nexus with facts discovered and the same cannot be questioned. It also adjudicated the Assessing Officer is the best judge of the situation.

Thus, rejection of books of accounts is justified. Accordingly, the books of accounts of the assessee are hereby rejected u/s 145(3) of the Income Tax Act, 1961

The searched entities of Vinod Jatia Group of companies used their goodwill and mortgaged their assets & properties with banks to obtain LC facility from the banks. This funding was passed on to Uttam/Topworth/Lloyds group entities. By providing this LC facility to his creditors who in turn passed on this funding to their group companies, the searched entities of Vinod Jatia Group took burden of lot of risk on themselves. They did not received any guarantee or LC from the parties to whom goods were allegedly sold. Therefore the searched entities of Vinod Jatia Group would have earned additional

commission for providing additional facility of LC to various parties. In the case of searched entities, where documents are on record regarding mortgaging properties for LC facility, the income is estimated at rate of 7% of turnover

However, the assessee company was not bearing risks of mortgaging properties; hence income is estimated at lower rate in the case of the assessee company. Considering the market practices, facts in other similar cases and overall facts & circumstances of the case, the income on such turnovers estimated at 5%, This estimated 5% income includes commission on accommodation entries of purchases and sales made/passed on to further the entries obtained from searched entities, and other unaccounted incomes like Bill Discounting income, interest received, Discounts, income on account of suppression of GPetc. Further no adjustment on account of existing gross profit is being given to the assessee company since the assessee company has suppressed GP to very miniscule and meagre level and no specific GP information as per the books of the assessee on account of transactions in question is available. Therefore, the estimated additional income in the case of the assessee company is 5% of Rs 557001849/- which comes to Rs27850092/-. Therefore, Rs.27850092/- is added to the total income of the assessee company.

9. In essence, from the said extract and the surrounding discussion, it can be seen that the Assessing Officer concluded that the books of account, though audited, were not reliable because the assessee had not produced them in full along with the necessary contemporaneous documents during the assessment proceedings. Invoking section 145(3), he rejected the books and treated the assessee as accommodation entry providers engaged in bogus purchases and sales, misusing LC facilities. For the lead year in Lloyds Metals and Energy Limited, the Assessing Officer noted that the total turnover was Rs. 7,59,20,21,599, the total alleged

bogus purchases with searched entities were Rs. 55,70,01,849/-, and the total alleged bogus sales with searched entities were Rs. 38,22,29,529/-. For the purpose of estimating income, he adopted the higher of the alleged bogus purchases or sales, namely Rs. 55,70,01,849/-, and applied a rate of five percent thereto. According to him, this estimated rate of five percent was intended to capture the totality of alleged unaccounted benefits said to have been derived by the assessees, such as commission on accommodation entries, LC discounting income, interest arbitrage, suppression of gross profit and other financial advantages. He also referred to the decision of the Hon'ble Madras High Court in Rayala Corporation Private Limited 215 ITR 883, to underline that best judgment assessment would be sustained so long as the estimate had nexus with the facts discovered and was not arbitrary.

10. The Assessing Officer then proceeded to make a separate disallowance in respect of indirect expenses claimed by the assessees in their profit and loss accounts. He tabulated the various heads such as salary, staff welfare, bill discount charges, rent, selling expenses, audit fees, travelling and sundry expenses, aggregating to Rs. 1,14,35,599 in the lead year, and observed that, in his opinion, these expenses were unreal and fabricated since, in his view, the underlying business itself was not genuine. He emphasised that the assessees had not satisfactorily explained these expenses or furnished supporting evidence. He then noted that the ratio of alleged bogus transactions with searched entities to the total

turnover worked out to about seven percent, and on that basis proceeded to disallow a corresponding portion of the indirect expenses. His relevant finding is as under:-

“On the basis of documents available on records, it is established that Searched entities is engaged in the practice of booking bogus sales & bogus purchases entries from the various parties. During the year under consideration, the searched entities has claimed various Indirect Expenses.

The assessee company has claimed all the above-mentioned expenses in the books of accounts. By doing this, he tried to show that the assessee company did genuine business activity Since, it is very much established that the assessee company has booked bogus sales & bogus purchases in the books, therefore, all these expenses are unreal and fabricated in nature. It can be said that, the only motive behind this is to reduce the tax burden.

The details for the same is extracted from the return filings and/or financial filed by the assessee and are produced here under-

<i>Account Head</i>	<i>Amount</i>
<i>Salary</i>	<i>7,194,449</i>
<i>Staff welfare</i>	<i>380,224</i>
<i>Bill Discount Charge & Other</i>	<i>2,421,582</i>
<i>Rent</i>	<i>345,413</i>
<i>Other Selling Exp</i>	<i>2,22,90</i>
<i>Audit fees</i>	<i>14,265</i>
<i>Travelling/ Coveyance</i>	<i>328,704</i>
<i>Sundry Expenses</i>	<i>750,962</i>
<i>Total</i>	<i>11,435,599</i>

During the course of assessment proceeding, the assessee company has neither satisfactorily explained nor submitted any proof w.rt the above indirect expenses amounting to Rs11435599/- The bogus transaction of the assessee company with the searched entities is 7% (that is Rs 557001849/- divided by Rs. 7592021599/-).

11. Aggrieved, the assessee carried the matter in appeal before the learned CIT(A). The learned first appellate authority, after calling for and examining the assessment records and the submissions of the assessee, rendered a detailed order. He prefaced his reasoning by observing that there was indeed no serious dispute about the fact that the assessee had engaged in transactions which bore the features of circular trading within the group. He upheld, in principle, several of the factual inferences drawn by the Assessing Officer regarding the nature of the group wide transactions and the absence of customary primary evidences of physical movement of goods. At the same time, however, he examined the legal consequences of these findings with reference to the methodology of assessment adopted by the Assessing Officer.

12. On the question of rejection of books of account, the learned CIT(A) took note of the fact that although the Assessing Officer had ostensibly invoked section 145(3), he had simultaneously relied upon the very figures disclosed in the audited books and returns of income to compute the impugned additions. The returned income was not substituted, but additions were made over and above the income already reflected in the audited financial statements. The learned CIT(A) reasoned that this approach indicated that the Assessing Officer had not in truth rejected the books in entirety, but had treated them as a partially reliable basis upon which further estimation could be superimposed. In such a situation, in the view of the learned CIT(A), a formal

rejection of books under section 145(3) was not strictly warranted, because the Assessing Officer could have made additions on the basis of the very material in the books and seized records without invoking best judgment provisions. He therefore held that the rejection of books was not justified in the facts of the case, although he accepted the broader factual narrative relating to the nature of transactions.

13. Coming to the estimation of additional income, the learned CIT(A) recorded that the Assessing Officer had adopted a composite rate of five percent on the higher of alleged bogus purchases or bogus sales, purportedly to subsume commission, LC discounting gains, interest arbitrage and suppressed gross profit. The learned CIT(A) examined this methodology and found it wanting. He observed that the modus operandi, as culled out by the Assessing Officer himself, revealed that the economic benefit to the assesseees arose principally at the point of onward sale and circulation of LC backed funds rather than at the stage of purchase. Therefore, in his view, it was more rational, even on the Assessing Officer's own hypothesis, to peg the estimation, if at all, with reference to the alleged inflated sales. He further recorded that the assesseees had placed on record comparative industry data highlighting that, in the line of business of wholesale trading in metals, the average gross margin ordinarily ranged between zero point one seven percent and zero point six three percent. While acknowledging that the present set of transactions was not a paradigm of ordinary genuine trading, he emphasised that any estimate of income

had nevertheless to be grounded in commercial reality and could not be pitched at an artificially high level divorced from industry benchmarks.

14. The learned CIT(A) thus concluded that the rate of five percent applied by the Assessing Officer was clearly excessive and disproportionate. Having regard to the nature of the transactions, the circulation of LC backed funds, the temporary financial float and incidental commission, and the comparative data furnished, he held that a reasonable estimate of additional income could not exceed zero point five percent of the alleged inflated sales. He, therefore, restricted the addition to zero point five percent of the alleged bogus sales and granted relief to the extent of the difference. He also noted that the assessee had furnished audited accounts, VAT returns, sample invoices and other documentation, which, in his view, militated against the complete discarding of books, even if the transactions displayed circularity. On this composite reasoning, he partly allowed the appeals of the assessee, upholding the characterisation of circular transactions but substantially reducing the quantum of addition and also granting relief in respect of disallowance of indirect expenses.

15. The Revenue, being aggrieved, carried the matter in appeal before us, while the assessee, not fully satisfied, also preferred appeals and cross objections, particularly assailing the residual addition at zero point five percent and questioning the validity of the proceedings under section 153C.

16. Before us, the learned Departmental Representative filed elaborate written submissions and advanced oral arguments, essentially reiterating and reinforcing the findings of the Assessing Officer. He emphasised that the learned CIT(A) was not justified in observing that there were no discrepancies in the documentary evidence filed by the assesseees, since, as per the assessment record, the assesseees had repeatedly failed to furnish the primary evidences of movement of goods and had not produced the directors in response to summons under section 131. The learned DR invited our attention to the detailed narrative of the Assessing Officer regarding seized tally extracts, bank trails, LC documentation and the sworn statements of Shri Narsingh Dhawale, Shri Chetan Mehta and Shri Vinod Jatia, which, according to him, demonstrated that the purchases and sales were merely on paper. He also contended that the learned CIT(A) had admitted and relied upon documents produced for the first time at the appellate stage without calling for a remand report or affording the Assessing Officer an opportunity to examine them, which, in his submission, was contrary to settled appellate procedure.

17. On the question of estimation, the learned DR submitted that the learned CIT(A) had gravely erred in reducing the profit rate to zero point five percent. He argued that the assesseees were not engaged in genuine trading, and therefore industry wide gross profit margins were inapposite. He pointed out that even the LC discounting rate itself, as per record, was in the vicinity of seven point seven percent, which supported the reasonableness of the Assessing Officer's

estimate of five percent when all elements of alleged unaccounted income were taken together. He further submitted that, once it was established that the assessee's activities contravened banking norms and involved misuse of LC facilities, the disallowance under section 37 was correctly made, since no expenditure incurred for illegal activities could be allowed. According to him, the learned CIT(A) had erred in deleting or reducing the disallowances and in substituting the Assessing Officer's estimate with his own without adequate justification. He, therefore, urged that the assessment orders be restored in toto and the assessee's appeals be dismissed.

18. In reply, the learned counsel for the assessee, while traversing the factual narrative, raised a twofold contention. First, he submitted that the present were assessments under section 153C, and therefore, in terms of well settled law, no addition could be made in the absence of incriminating material pertaining to the assessee for the relevant year, found as a result of search. He argued that despite an extensive search, the Revenue had not been able to unearth a single piece of cogent material evidencing receipt of cash or any other unaccounted consideration by the assessee. There was, he said, no seized document showing cash exchanges, no diary, no noting and no cash trail, and none of the recorded statements, even the so called confessional ones, alleged that the present assessee had earned cash over and above the profits already reflected in the books of account.

19. Secondly, and without prejudice, he submitted that even assuming that the Revenue's hypothesis regarding circular transactions was accepted, the fact remained that the assessee had disclosed their margins from such transactions in the audited accounts, and there was no material to suggest that any income beyond those disclosed figures had actually accrued or been received. He pointed out that the learned CIT(A), while calling for and examining comparative cases, had obtained industry data showing that the average gross margin in wholesale trading in metals ranged between zero point one seven percent and zero point six three percent, and, therefore, even his estimation at zero point five percent was on the higher side. He contended that in the case of the assessee, the profit margin disclosed on the alleged circular transactions was around zero point two seven percent, which, in his submission, adequately covered any commission-like element embedded in the transactions.

20. Most importantly, the learned counsel drew our attention to the fact that this very controversy, arising from the same search, same seized material, similar patterns of alleged circular transactions, identical methodology of estimation, and similar relief granted by the learned CIT(A), had come up before this Tribunal in the case of Indrajit Properties Private Limited, another group concern. In that case, for Assessment Years 2013-14 to 2019-20, the Assessing Officer had likewise estimated additional income at five percent of alleged bogus turnover, the learned CIT(A) had restricted the same to zero point five percent, and the matter

had travelled to the Tribunal. The Tribunal, after marshalling all facts and law, had deleted the addition in entirety, holding that there was no positive evidence of any cash or unaccounted income outside the books and that even the residual estimate at zero point five percent was unsustainable.

21. The learned counsel placed before us a copy of the consolidated order of the Tribunal in *Indrajit Properties Private Limited* and invited our attention to paragraphs 17 to 26 thereof, wherein the Tribunal had, inter alia, analysed the nature of transactions, noted the absence of any seized material evidencing cash, commented upon the improbability of such large cash movements without any trail, adverted to the fact that no payer had been identified nor any addition made in the hands of counterparties, and held that the profit disclosed in the books in respect of alleged circular transactions already subsumed any commission income. He contended that the present cases were indistinguishable on facts and law from the said decision and that, applying the rule of consistency and judicial discipline, the additions deserved to be deleted here as well. In the original order in the group case, the Tribunal reproduced in extenso the aforesaid paragraphs 17 to 26 of the order in *Indrajit Properties Private Limited*, setting out the reasoning in that case. The following relevant portion is incorporated herein below.

22. We have given our thoughtful consideration to the rival submissions, carefully perused the assessment orders, the

appellate orders of the learned CIT(A), the written submissions of Id. DR, and most crucially, the coordinate bench decision in the case of Indrajit Properties Private Limited arising from the very same search. The entire controversy stands on a narrow but significant plank. The Revenue's case is that, owing to the alleged circular nature of transactions and the misuse of LC facilities, the assessee must necessarily have earned substantial unaccounted income in the form of commission, arbitrage or other benefits, which, according to the Assessing Officer, could reasonably be estimated at five percent of the alleged bogus turnover. The assessee's case, on the other hand, is that there is no incriminating material evidencing any such unaccounted income and that the profits already disclosed in the audited books fully capture whatever margin was actually realised.

23. The coordinate bench, in Indrajit Properties Private Limited, has, after an exhaustive analysis of the same search proceedings, categorically recorded that there is absolutely no seized document or statement indicating receipt of cash or other unaccounted consideration by the assessee. It has emphasised that, if indeed such substantial sums, aggregating to about Rs. 250 crores across years, had moved in cash, it would be wholly contrary to human conduct and business prudence to expect that no trail whatsoever would surface in a search of the magnitude carried out. The bench has also highlighted that no payer has been identified, nor any addition made in the hands of any alleged counterparty, thereby rendering the Revenue's theory of substantial

unaccounted payouts wholly conjectural. The coordinate bench has further held that, in the context of such circular transactions, the margin disclosed in the books itself represents the commission element and that, in the absence of any positive material, no further estimate of additional income can be made merely on surmise. The relevant portion is reproduced as under:-

“17. Now considering the above facts in detail, we proceed to decide the merits of the additions. In this regard, it was submitted that the assessee had not entered into any bogus/circular transactions as held by the AO. As per Ld. AR the assessee is engaged in the business of wholesale trading of metals and metal ores having a turnover of more than Rs. 2,000 crores. Considering the nature of the goods traded, which are heavy and bulky in size, there is typically no physical movement of such goods at the time of sale. Instead, the goods are stored at designated warehouses, and symbolic delivery is effected by way of transfer of title documents or delivery orders, which is an accepted and recognized commercial practice in the line of business. Such operational model is standard across the industry and does not, in any manner, indicate the presence of sham transactions. Thus the transactions are genuine.

*18. Alternatively, it was also submitted that even if it is to be assumed that the assessee has entered into circular transaction, there is no evidence nor any findings arising out from the search proceedings to suggest that the assessee has earned extra cash which is in excess of amounts/profits already reflected in the books of accounts. On the contrary, the statements recorded of various individuals at the time of search indicate that the assessee has earned commission as its profits for providing the service of generating alleged non-genuine invoices. In this regard our attention was drawn to the statement of **Shri Narsingh Vijay Dhawale**, accountant of Mr. Vinod Jatia which is at paper book page No. 56 & 57, (Q. No. 13 and 14).*

Further, statement of **Shri Riyaz Shaikh, CFO** of Lloyds Metal and Energy Limited (group company of the assessee) which is at paper book page No. 71, (Q. no. 32). Thus, in this way we have noticed that the statements itself indicate that the transactions were executed in an auto mode with a pre-determined commission structured as profits. Most importantly, there is no mention of any cash consideration or compensation being paid for availing the alleged bogus invoices in any of the search statements including confessional statements.

19. We noticed from the record that not only there are **no seized documents** supporting the findings of the AO, absolutely there is **no deposition** made by anybody indicating any cash receipts by the assessee. It is important to mention here that in a case where there would have been such statements during the course of search alleging such cash receipts, the assessee would have an **opportunity to cross examine** the deponent. However, as per the facts of the present case, the assessee is in a worst situation in as much as the AO and Ld. CIT(A) has merely **presumed** and **inferred** cash consideration and thus the assessee had no such opportunity.

20. We further noticed that the additions made by the AO for all the six years is of approximately Rs. 250 crores. However, it is impossible and against the prudence that such substantial amounts have been paid to the assessee without leaving behind any documentary evidence such as notings, diaries or any cash trail. The **complete absence** of such evidence, in spite of extreme action of search and seizure, strongly suggest that no cash income was actually received by the assessee. **Thus the absence of any evidence in itself is a positive evidence to suggest absence of cash transactions.** On this proposition reliance is being placed upon the decision of the Coordinate Bench of the Mumbai of the Hon'ble Tribunal in the case of **DCIT v. Supreme Holdings and Hospitality (India)** wherein, with respect to the **same search** proceedings of Mr. Vinod Jatia and his companies, the Coordinate Bench of

the Tribunal held that **there is no involvement of any cash transaction nor there is any cash trail found in the search proceedings.**

21. Furthermore, neither the AO nor the Ld. CIT(A) has referred to or relied upon any specific finding or tangible evidence to demonstrate that the assessee had actually received any cash. In our view, at the time of making the addition, the AO has merely proceeded on a **presumptive basis** by stating that the assessee **might have received cash**, without bringing any concrete, corroborative or even circumstantial evidence on record to substantiate such an assumption. Such reasoning of the revenue authorities is based purely on conjectures was also accepted by the Ld. CIT(A). In our considered view, such conjectural reasoning cannot form the basis for a sustainable addition under the Act. On this proposition, reliance is being placed up on the decision of the Hon'ble Supreme Court in the case of **Dhakeshwari Cotton Mills Ltd. v. CIT (26 ITR 775) (PBP 144)**, wherein, it was held that although, the AO is not restricted by the strict and technical rules of the evidence and pleadings, he cannot proceed to make an addition purely on a guess work without any reference to material or tangible evidence.

22. After evaluating the entire records, we also found that the payer of the alleged amount has not been identified throughout the assessment proceedings. It is strange that the AO has alleged that the receipt of excess consideration to the extent of 5% of the turnover, which aggregates to approximately Rs. 250 crores for all the years under consideration but at the same time had not identified the person who had paid such a huge amount to the assessee. The revenue has also not made any addition in the hands of any counter party in respect of such huge amount allegedly paid to the assessee. Thus in our view, if the assessee had received the cash consideration outside the books of accounts, then in that eventuality, there has to be some entity who has paid such amount and such entity ought to have been identified and taxed by the Income-tax Department.

23. Even otherwise, the additions sustained by the Ld. CIT(A) is excessive. As in this regard, it was submitted that as per prevailing industry practice, the profit margin earned in case of a genuine wholesale trading is between 0.17% and 0.63%. **(This fact has been accepted by the Ld. CIT(A) on Pg. 86)**. Therefore, in our view, even assuming that the transaction entered by the assessee are circular in nature and non-genuine, then in that eventuality the findings of the Ld. CIT(A) that the assessee must have earned 0.5% commission is contrary to commercial logic. No prudent businessman would pay such a high commission to a mere entry provider, especially when the commission exceeds or equals the profit margins earned in legitimate trading activity. Hence, the commission earned by the assessee has to be much lower than the industry's average net profit margin.

24. Even otherwise, the profit margin disclosed by the assessee on alleged circular transactions comes to 0.27% for the year under consideration **(chart showing profit margin for the all the years is enclosed in the file)**. Therefore, in our view, considering the thin margin in this line of business, it is held that the profits disclosed by the assessee in its audited books of account includes commission income earned, therefore, in our considered opinion, no further addition is warranted on this account. Reliance is being placed on the decision of the Rajkot Bench of the Hon'ble Tribunal in the case of **Kamlesh Deoraj Jain v. ITO (PBP 154)**, Chandigarh Bench of the Hon'ble Tribunal in the case of **Seo Lehenga House v. DCIT (PBP 173)** and Nagpur Bench of the Hon'ble Tribunal in the case of **ACIT v. Solaries Holdings Pvt Ltd. (PBP 197)**, wherein it has been held that **in case of a circular transaction, the profit declared in the books of accounts covers the commission portion and that no further addition is warranted especially in absence of any evidence of cash payments.**

25. Therefore, considering the totality of the facts and circumstances of the present case and also considering the decisions of the Coordinate Benches of the Tribunal

as discussed by us above, we allow the grounds of appeal raised by the assessee and direct the AO to delete the additions.

26. Since, we have deleted the additions by considering the merits, therefore there is no need to adjudicate the other grounds raised by the assessee as the same become academic in view of our above detailed findings.

24. The facts before us are on all four corners are exactly the same with those in *Indrajit Properties Private Limited* as the search is same, the modus operandi alleged by the Assessing Officer is same, the seized materials are part of the same overarching investigation, and the methodology of estimation adopted is identical. The learned CIT(A) has, in the present cases also, followed a similar approach of accepting the broad narrative of circularity but restricting the addition to 0.5% of the alleged bogus sales. The arguments advanced by the learned DR before us are substantially similar to those advanced in that case and stand considered in detail by the coordinate bench. In the absence of any distinguishing factual or legal feature brought to our notice, judicial discipline enjoins that we follow the earlier decision, more so when it arises from the same search and concerns the same group of cases.

25. There is also a more fundamental legal infirmity in the Revenue's case. These assessments have been framed under section 153C. It is trite that such assessments are not intended to be a roving reassessment of already concluded matters, but must rest on incriminating material pertaining to

the particular assessee and year, found as a result of search. Here, as the coordinate bench has already noticed in *Indrajit Properties Private Limited* and as is equally true of the present assessees, there is no seized material indicating that the profit disclosed from the impugned transactions is understated or that some further consideration has passed outside the books. The entire edifice of the addition rests on a presumed higher commission or arbitrage which, in turn, is inferred only from the alleged circular nature of entries. Such an edifice, unsupported by any incriminating material, cannot sustain an addition under section 153C.

26. We may add that even on first principles of best judgment assessment, an estimate, howsoever honest, cannot be built on pure conjecture divorced from evidence. The Supreme Court in *Dhakeshwari Cotton Mills Limited* 26 ITR 775, while recognising that the Assessing Officer is not fettered by strict rules of evidence, has equally cautioned that he cannot make a pure guess without reference to any material. In the present cases, beyond the characterisation of transactions as circular and the absence of typical trading documentation, there is no material to show that any income beyond the disclosed margin has actually accrued. The assessees' disclosed margin itself is within the range of, or slightly above, industry benchmarks placed before the learned CIT(A), and in the absence of contrary material, it would be inappropriate to assume a much higher undisclosed margin. The coordinate bench in *Indrajit Properties Private Limited* has, after referring to a series of decisions of different benches

of the Tribunal, held that where circular transactions are recorded in the regular books and the profit thereon is duly reflected and subjected to tax, no further addition is warranted in the absence of evidence of cash or other consideration outside the books. We see no reason to differ.

27. In view of the foregoing discussion and respectfully following the binding precedent of the coordinate bench in *Indrajit Properties Private Limited*, we hold that the additions made by the Assessing Officer by estimating additional income at five percent of alleged bogus purchases or sales, and as partly sustained by the learned CIT(A) at zero point five percent of alleged bogus sales, are unsustainable. The entire additions on this score are directed to be deleted in the cases of both the assesseees for all the years under appeal. The elaborate arguments advanced by the learned Departmental Representative, being a reiteration of the line of reasoning already considered and rejected by the coordinate bench, do not persuade us to take a different view.

28. Before parting with the merits, we may also notice that neither the Assessing Officer nor the learned CIT(A) has pointed out any specific incriminating material to suggest that the profit margins disclosed by the assesseees, even treating the transactions as circular amongst group entities, were artificially depressed or that some extra profit or commission was earned in cash. The seized documents refer to the pattern of circular purchases and sales and the use of LC facilities, but do not indicate any parallel cash component. In such circumstances, any estimation of a higher profit rate goes

beyond the permissible scope and ambit of assessment under section 153C. Once the substantive additions are deleted, nothing further survives in these appeals in so far as quantum is concerned.

29. In the light of our conclusion on merits, the challenge raised by the assesseees to the validity of jurisdiction under section 153C becomes merely academic in nature. We accordingly refrain from adjudicating the jurisdictional ground, treating it as infructuous, and leave the question open.

30. In the result, for all the Assessment Years involved and in respect of both the assesseees, the appeals filed by the Revenue stand dismissed, while the appeals and cross objections filed by the assesseees are allowed on merits in the manner indicated above.

Order pronounced on 27th November, 2025.

**Sd/-
(GIRISH AGRAWAL)
ACCOUNTANT MEMBER**

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

Mumbai; Dated 27/11/2025
KARUNA, *sr.ps*

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