

**IN THE INCOME TAX APPELLATE TRIBUNAL
“SMC” BENCH : BANGALORE**

BEFORE SHRI PRASHANT MAHARISHI, VICE PRESIDENT

ITA No.1037/Bang/2025
Assessment year : 2017-18

Natural Capsules Ltd., No.23, Trident Towers, 4 th Floor, 100 Ft. Road, Jayanagar, Bangalore South, Bangalore – 560 037. PAN: AAACN 6209M	Vs.	The Income Tax Officer, Ward 5(1)(1), Bangalore.
APPELLANT		RESPONDENT

Appellant by	:	Smt. Suman Lunkar, CA
Respondent by	:	Shri Ganesh R. Ghale, Advocate, Standing Counsel.

Date of hearing	:	24.11.2025
Date of Pronouncement	:	22.12.2025

ORDER

1. This appeal is filed by Natural Capsules Limited for assessment year 2017 – 18 against the appellate order passed by the CIT(Appeals)–3, Hyderabad (the learned CIT – A) on 20 March 2025 wherein the appeal filed by the assessee against the assessment order passed by the ITO, Ward – 5 (1) (1), Bangalore under section 143 (3) of the Income Tax Act, 1961 [the Act] dated 23 December 2019 was partly allowed.
2. The assessee’s only ground of grievance is the disallowance of professional charges to the extent of ₹ 154,167 on the ground that the expenditure incurred is towards issue of fresh capital and same is

required to be capitalised and further the learned CIT – A has enhanced this disallowance made by the assessing officer on account of repairs and maintenance of plant and machinery by treating it as a capital in nature on the ground that it provided enduring benefit to the assessee.

3. Brief facts shows that the assessee is a company, engaged in the business activity of manufacturing of drugs and pharmaceuticals such as manufacturing of hard gelatine capsule sales, hard cellulose capsules and a range of variants of capsules at Bangalore and at Pondicherry, filed its return of income on 25 October 2017 at a total income of ₹ 46,295/-. The above returned was selected for scrutiny and therefore notice under section 143 (2) was issued on 13 August 2018. After discussion the assessment order was passed under section 143 (3) of the Act on 23 December 2019 wherein the learned assessing officer made an addition/disallowance of capital expenditure on repairs and maintenance of ₹ 1,588,668 and further disallowed 20% of professional charges in connection with the increase in share capital amounting to ₹ 621,826/- resulting into the assessed income at ₹ 2,256,789/-.
4. The assessee challenged the same before the learned CIT – A wherein part of the disallowance of the revenue expenditure of repairs and maintenance were held to be capital in nature and part of the expenditure were allowed. With respect to the expenditure of issue of fresh capital, he confirmed the disallowance of professional charges of ₹ 154,167/- and deleted the balance disallowance of ₹ 4,67,659/-. Therefore the assessee is in appeal before us.

5. The learned assessing officer examined the profit and loss account that there is an expenses debited under the head repairs and maintenance, assessee was asked to submit the details of those expenses, assessee submitted a detailed chart of the expenditure along with the direction for the expenditure amounting to ₹ 1,547,868/-. The assessee stated that these expenditure are normal, routine repairs and Maintenance expenses, does not increase any production capacity and also do not give any enduring benefit to the assessee. Therefore it was claimed that these expenditure are revenue in nature. The learned assessing officer did not accept the reply of the assessee because of the reason that according to him the narration of the expenses suggest that these expenses are capital in nature but claimed as repairs and maintenance expenditure therefore he disallowed a sum of ₹ 1,588,668 holding that these are capital expenditure. On appeal before the learned CIT – A, he found that that the expenditure in the table shown by the learned assessing officer has an arithmetical mistake in totalling of the expenditure and the total of such expenditure are ₹ 1,948,007/- and not ₹ 1,588,668. Therefore he considered the disallowance of ₹ 1,948,007/- and held that the expenditure of Rs 207285/-, ₹ 207,286, ₹ 114,240, ₹ 448,000 and ₹ 40,800 and ₹ 40,800 for purchase of magnetic bullets, magnetic enclosures and auto follower frame elevator further expenditure of ₹ 683,400/- for purchase of various equipments for upgradation of effluent treatment plant was also considered as capital expenditure.

6. The learned authorised representative submitted a detailed paper book before us wherein the assessee submitted the complete explanation about the repairs and maintenance expenditure incurred by the assessee, wherein it is discussed that the all the expenditure is stated by the learned CIT – A to be capital expenditure are routine replacement etc. of the regular part and components of the plant and machinery and therefore they are repairs and maintenance expenditure and not capital expenditure which resulted into any increase in the production capacity of the assessee or giving any enduring benefit to the assessee. Therefore same should be allowed as an expenditure
7. The learned departmental representative vehemently supported the order of the learned CIT – A and submitted that the expenditure incurred by the assessee has been examined by the learned CIT – A and he after examining the each of the item held it to be capital in nature. Therefore, the orders of the learned lower authorities on this issue are on rock solid foundation.
8. I have carefully considered the rival contention and perused the orders of the learned lower authorities. This is challenged as per ground No. 2 of the appeal where the assessee incurred expenditure on repairs and maintenance part of the lower authorities have considered them to be capital expenditure in nature. The learned CIT – A has considered the expenditure on purchase of magnetic enclosure, magnetic bullet and permanent magnets to be a capital expenditure. These are the items which are used to remove ferrous contaminations such as iron and steel

from free-flowing materials and are installed in pipelines to capture and retain ferrous particles preventing them from contaminating Pharma products. The learned CIT – A has considered this explanation and thereafter held that as it is used in machines to remove black particles which clearly depicts that the said expenditure is not for repair of an existing machinery but an addition to the new asset to obtain enduring benefits. It is not the case that assessee was earlier not using these process, over a period of the process the above items of plant and machinery got old and therefore they are replaced. It is not the replacement of any plant and machinery but a minor replacement of the overall pipeline of the pharmaceutical manufacturing. Therefore I do not find any reason to uphold the disallowance made by the learned CIT – A. Further the total expenditure of these items is ₹ 1,058,411 in the total block of the fixed assets amounting to ₹ 611,152,563 as on 31st of March 2017. Further the expenditure of ₹ 683,400 is claimed for the purchase of various equipments for effluent treatment plant at Pondicherry unit. The learned and CIT – A held it to be capital expenditure. It is not the complete effluent treatment plant replaced by the assessee but a minor parts used in the effluent treatment plant were replaced to treat the effluent colour water. This is also not resulting into any enduring benefit. The learned that CIT – A held it to be a capital expenditure but looking at the audited accounts, the auditors of the company, shareholders of the company have also not held it to be a capital expenditure. Though there may not be the criteria for deleting the disallowance but that is also having a persuasive value wherein an

independent auditor's report did not say that capital expenditure has been classified as a revenue expenditure in its audited accounts. Even otherwise looking at the nature of the expenditure, details provided by the assessee, the narration produced by the assessing officer and the opinion of the learned CIT – A also does not suggest that these expenditure is capital in nature. Accordingly we allow ground No. 2 of the appeal of the assessee and the direct the learned assessing officer to hold that the expenditure on repairs and maintenance is a revenue expenditure incurred by the assessee on plant and machinery.

9. The second issue relates to the expenditure claimed on professional charges by the assessee which is related to the share transfer work, and professional fees for listing of the equity shares with Bombay stock exchange. The learned assessing officer considered the sum of ₹ 621,826/- and disallowed 20% of professional charges. The learned CIT – A confirmed the disallowance to the extent of ₹ 154,167 only stating that it is for the purpose of increasing the share capital.
10. The learned authorised representative submitted that these expenditure are incurred for the share transfer work as well as paid for reconciliation of the share capital. These are not in relation to the issue of share capital.
11. The learned departmental representative specifically referred to paragraph No. 6.4.4 of the appellate order and supported the order of the learned CIT – A.

12. I have carefully considered the rival contention and perused the orders of the learned lower authorities. I find that that the learned assessing officer has made the ad hoc disallowance of 20% of the professional charges however the learned CIT – A has identified each of the charges of the professional fees and held that sum of ₹ 154,167/- holding that same is towards the issue of fresh share capital. As we find that that sum of ₹ 57,967 is a professional charges toward share transfer work, a sum of ₹ 25,575/- as fees for preparing reconciliation of the share capital audit report, same cannot be held to be for increase in the share capital. Further sum of ₹ 50,000 paid as professional charges in connection with the listing of the equity shares at the Bombay stock exchange. Therefore all these expenditure according to me are allowable as a professional fees under section 37 (1) of the act. I direct the learned assessing officer to delete the about disallowance.
13. In the result appeal filed by the assessee with respect to ground No. 2 and 3 are allowed. Other grounds are general and hence dismissed.
14. In the result appeal of the assessee is partly allowed.

Pronounced in the open court on this 22nd day of December, 2025.

Sd/-

(PRASHANT MAHARISHI)
VICE PRESIDENT

Bangalore,
Dated, the 22nd December, 2025.

Copy to:

1. Appellant
2. Respondent
3. Pr. CIT
4. CIT(A)
5. DR, ITAT, Bangalore.

By order

Assistant Registrar
ITAT, Bangalore.