

आयकर अपीलिय अधिकरण, 'डी' न्यायपीठ, चेन्नई
IN THE INCOME-TAX APPELLATE TRIBUNAL 'D' BENCH, CHENNAI
श्री एस.एस. विश्वनेत्र रवि, न्यायिक सदस्य एवं श्री जगदीश, लेखा सदस्य के समक्ष ।
Before Shri S.S. Viswanethra Ravi, Judicial Member &
Shri Jagadish, Accountant Member

आयकर अपील सं./I.T.A. No.2305/Chny/2012
निर्धारण वर्ष/Assessment Year: 2008-09

Coastal Energy Private Limited,
5, Buhari Buildings, Moores Road,
Thousand Lights, Chennai 600 006.

Vs. The Assistant Commissioner of
Income Tax,
Company Circle I(3),
Chennai.

[PAN: AAACC4160A]

(अपीलार्थी/Appellant)

(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से / Appellant by : Shri B. Ramakrishnan, FCA
प्रत्यर्थी की ओर से/Respondent by : Shri A. Sasi Kumar, CIT
सुनवाई की तारीख/ Date of hearing : 10.11.2025
घोषणा की तारीख /Date of Pronouncement : 06.02.2026

आदेश /O R D E R

PER S.S. VISWANETHRA RAVI, JUDICIAL MEMBER:

This appeal filed by the assessee is directed against the assessment order dated 19.10.2012 passed under section 143(3) r.w.s. 144C(13) & 92CA(3) of the Income Tax Act, 1961 ["Act" in short] for the assessment year 2008-09.

2. Ground No. 1 raised by the assessee is general in nature and requires no adjudication.

3. Ground No. 2 (2.1) raised by the assessee as to whether the Assessing Officer/DRP is justified in making addition of shortage and quality cut costs to an extent of ₹.7,00,00,000/- in the facts and circumstances of the case.

4. We find the Assessing Officer noted a new entry with alarming proportions is debited under the head 'shortages and quality cut'. After examining the reason for the increase in shortages, the Assessing Officer asked the assessee to provide the records and correspondence establishing each and every cost cut made by the customers. On verification of details furnished by the assessee, the Assessing Officer noted that under the head of expenditure includes shortages of ₹.38,00,774/-, shortages account of ₹.35,72,178/- and finally quality cut and liquidated damages of ₹.7,99,26,147/- and tabulated at para 4.2 in pages 2 & 3 of the draft assessment order. The Assessing Officer noted that such losses were only 0.113% of the turnover in the immediately preceding year and the same had risen to 1.19% during this year. The Assessing Officer, after considering the submissions of the assessee and making elaborate discussions in para 3.3 to 3.7 of the draft assessment order, disallowed the claim of expenditure of ₹.7 crores and added to the total income of the assessee.

5. The assessee raised objection before the DRP and produced debit notes issued by its buyers for lesser quality and quantity. The DRP noted that, when the Assessing Officer specifically asked, the assessee failed to produce evidence of weighment of the goods dispatched and the DRP confirmed the disallowance and accordingly, the Assessing Officer passed the final assessment order by disallowing the expenditure claimed by the assessee. On being aggrieved, the assessee is in appeal before the Tribunal.

6. The Id. AR Shri B. Ramakrishnan, FCA submits that the assessee claimed expenses pertaining to 'shortages and quality cut amounting to ₹. 11,00,23,727/-. These wastages and quality cuts related to the supplies made by the assessee to its buyers. On verification of the P&L account of the assessee, the Assessing Officer observed that the expenditure for the immediately preceding year under this account head is ₹. 90,06,402/-, which has got increased to ₹.11,00,23,727/-. He further submits that the nature of such wastages and quality cuts was explained by the assessee before the Assessing Officer as being on account of deviation in total moisture content, gross calorific value and ash content as compared to the quality parameters negotiated in the contract. The assessee also explained that such quality degradation was due to exposure to rain and

sunlight, the concerned materials having been stored in the open, and also on account of pilferage and incidental losses in the processes of loading and unloading and transport.

7. The Id. AR further submits that the Assessing Officer concurred with the assessee's submission dated 23.12.2011 to the extent that factors such as moisture and ash content may affect coal quality, but, not the quantity to an extraordinary extent, while some pilferage is expected, the quantum of such losses to be abnormally high during the period under consideration. He submits that the Assessing Officer found such losses only 0.113% of the turnover in the immediately preceding year and the same had risen to 1.19% during this year - an increase of nearly 10 times. By observing that the climatic condition of the Indian nation has not undergone any change during FY 2007-08 as compared to FY 2006-07, the Assessing Officer made the disallowance of ₹. 7,02,50,723/- out of the total expenses claimed pertaining to shortage and quality cuts amounting to ₹. 11,00,23,727/- was made since the assessee failed to furnish weighment bills or complete documentation to substantiate the actual quantity of coal supplied. The Assessing Officer observed that the shortfall of ₹.7 crores arises solely from short supply and not from quality-related deductions. Further, as the entire coal was imported from the AE,

M/s. Coal & Oil, Dubai, the assessee should have raised a debit note for the full short supply of ₹.9.40 crores but did so only for ₹.2.34 crores, indicating non-arm's length pricing. Additionally, since stock valuation was book-based and not physical, the short-supplied coal may still be in stock, justifying an increase in closing stock. Accordingly, ₹.7 crore claim was disallowed, and taxable income enhanced, which was confirmed by the DRP.

8. The Id. AR further submits that the assessee has supplied coal to the 11 customers. He vehemently argued that the Coal is not a product manufactured by the assessee, but it is a homogeneous product, which is supplied and quality of coal may vary even if samples are tested from one large quantity of coal stored in a particular area. He further argued that prior to its supply to the customers, the coal is stored in open storage area which is subject to sunlight and rain. The quality of coal may also get affected during the course of transportation by railway racks or trucks without proper cover. Further, in the case, at the time of supplying to the customer, the specified quality of coal is available at the point of time of supply to the customer. The assessee would supply a lower quality of coal which was available at that point of time and would take a price cut for the same. In the event of a difference in the quality of coal specified by

the customer and the quality of coal supplied by the assessee, i.e., with respect to moisture content, GCV, ash content etc, the customer would raise a debit note on the assessee and the assessee would remit the balance towards final settlement. He argued that there are shortages in quantities of coal supplied due to pilferage for which also debit notes are raised by the customers and the price cut in all the above instances, instead of being reduced from the sales value, would be debited to the Profit & Loss a/c under the head shortages and quality cut.

9. The Id. AR further submits that the Assessing Officer ought to have appreciated the nature of the business of the assessee, Coal is supplied to the customers according to the specifications, with respect to moisture content, Ash content. Coal, being a homogeneous product, can show quality variations despite testing, especially when stored in open yards and transported without cover, leading to deterioration. If the specified quality is unavailable, lower grade of coal is supplied, and customers raise debit notes for discrepancies in quality parameters pertaining to moisture, GCV, and ash content these expenses are then duly accounted for in the Profit & Loss account under 'shortages and quality cut.

10. Further, he submits that the Assessing Officer's contention in the Draft Assessment Order dated 23.12.2011, stating that "the climatic

condition of the Indian nation has not undergone any change during FY 2007-08 as compared to FY 2006-07," is erroneous and based on a presumption without any corroborative evidence on record. Such a broad assertion, in the absence of empirical data or expert analysis, cannot form a valid basis for rejecting the assessee's claim. He vehemently argued that the Assessing Officer's conclusion that the pricing of coal by the overseas Associated Enterprise (AE), M/s. Coal and Oil, Dubai, was not at arm's length merely because the debit note raised by the assessee on the AE was limited to ₹2.34 crores is factually and legally untenable.

11. The Id. AR, further, submits that the coal consignments sold by the assessee to its customers do not necessarily correspond on a one-to-one basis with specific consignments received from the AE. The coal supplied to customers is often drawn from a mixed inventory comprising multiple shipments from the AE, and it is neither feasible nor commercially practical to match short supply or quality claims from customers with individual inward consignments. Furthermore, the purchase orders placed by the assessee on the AE are independent of the purchase orders received from its customers. The assessee transacts with the AE on a principal-to-principal basis and assumes full ownership of related commercial risks including pilferage and quality-related deductions-prior

to the sale of goods to end customers, such risks cannot be automatically passed on to the AE, and there is no obligation or commercial basis to raise a corresponding debit note for every debit note issued by a customer. Accordingly, the debit note of ₹2.34 crores raised on the AE reflects only those cases where a direct linkage could be established. He argued vehemently the balance shortfall claimed by the customers does not justify a corresponding adjustment against the AE, nor does it indicate that the pricing of coal by the AE was not at arm's length, the disallowance of ₹7 crores on this ground is erroneous and not supported by the commercial realities of the assessee's operations.

12. The Id. AR further submits that the presumption drawn by the Assessing Officer that coal to the extent of ₹7,00,00,000 was short-supplied by the assessee to its customers and that such quantity remained in the assessee's closing stock is wholly speculative, devoid of any evidentiary support, and contrary to the facts on record. He refers to the draft assessment order dated 23.12.2011 and argued that the Assessing Officer proceeded to make addition on conjecture rather than on any verifiable material or documentary evidence. It is submitted that the valuation of closing stock, including coal inventory, has been duly determined and certified by the assessee's statutory auditors in

accordance with applicable accounting standards and principles. The valuation reflects the actual stock position as per the books of account, which have not been rejected under the provisions of Section 145 of the Act. He argued vehemently that the Assessing Officer has not brought on record any discrepancy in the physical stock, nor has there been any adverse finding from any third-party verification or audit to support the claim that such short-supplied coal was lying unaccounted in closing stock. In the absence of any tangible evidence, the AO's attempt to artificially inflate the closing stock value by ₹7 crores amounts to an arbitrary addition, which is unsustainable in law and on facts. Furthermore, it is also submitted that all the parties who have raised debit notes against the assessee are independent third parties with no relationship whether direct or indirect-with the assessee. The debit notes issued by such unrelated customers reflect genuine commercial claims arising out of standard business dealings and must be viewed as legitimate business expenditure. He argued that in the absence of any evidence to the contrary, the disallowance made by the Assessing Officer on this count is wholly unwarranted and deserves to be set aside.

13. Further, he submits that the majority of the documentary evidence-comprising detailed computations of the quantity of material received,

relevant ledger accounts, material receipt certificates, payment details, debit notes, and client confirmations pertaining to deductions on account of higher moisture content, lower GCV, and shortages, substantiating expenses amounting to ₹.5,84,89,193/-, was duly furnished in the paper book filed before the ITAT on 23.05.2012 and as additional evidence vide petition filed before the ITAT on 10.07.2017.

14. The Id. AR drew the attention to the additional evidence petition filed on 10.07.2017, along with the documents enclosed therein (pages 1-27) and submitted that the top sheet of the said petition contained a comprehensive table summarizing all amounts for which evidences were submitted, with specific reference to highlighted parties in respect of whom additional evidences had been enclosed along with the petition. In order to establish a clear and logical flow between the evidences submitted and the genuineness of the expenses incurred, the Id. AR drew our attention pages 1-17 of the additional evidence filed vide the aforementioned petition, wherein, in the case of MPM-Medi Dubai at page 2, contains a tabulation of the quantity of coal received and the corrected weight, after taking into account permissible adjustments.

15. The Id. AR drew our attention to pages 5-17 of the additional evidence containing material receipt certificates furnished by MPM Ltd

and submits the said certificates indicate the quantity of material received and the corrections made in respect of moisture and ash content, resulting in the computation of the corrected net weight in each instance. Following this, he drew our attention to page 1 of the additional evidence, which contained a quality cut working - this working reflected the differential between the total loaded quantity (45202.56 MT) and the total quantity actually received (43886 MT), aggregating to 1,021.69 MT. This difference was then multiplied by the rate of ₹.3,535.00 per MT, resulting in a total quality cut expense of ₹.36,11,671/-, attributable to moisture and ash content.

16. Further, the Id. AR drew our attention to page 3, which contained details of payment made for the import of coal. The total payment made by MPM-Medi Dubai, computed by multiplying the corrected quantity (i.e., quantity after accounting for moisture and ash adjustments) with the applicable rate per MT, amounted to ₹.15,51,38,629.03. These documents collectively substantiate the genuineness of the expense incurred and demonstrate that the adjustment made in respect of moisture and ash was both factual and necessary.

17. Further, he drew our attention to page 19 of the additional evidence, which contains details of deductions made on account of higher

moisture content and lower Gross Calorific Value (GCV) by Terra Energy Private Ltd. He also drew our attention to page 18 of the additional evidence which contains a confirmation amounting to ₹. 42,01,742/- from Terra Energy Ltd was provided, wherein it was confirmed that the said amount was deducted towards higher moisture, lower GCV and shortages as per terms of purchase order and prayed that the additional evidence may be admitted, as it provides crucial grounds for reconsideration of the conclusions drawn on the disputed issues.

18. The Id. DR Shri A. Sasi Kumar, CIT submits that the expenditure for the immediately preceding year under this account head is ₹.90,06,402/- which has got increased to ₹.11,00,23,727/-. The reason for the phenomenal increase in shortages was examined and by Item No. 10, the assessee was required to establish that the expenditure which is unreasonably high had actually been incurred. The AR provided certain documentation in the assessment proceedings but, the same is not sufficient, requires providing the records and correspondence establishing each and every cost cut made by the customers. At the time of first hearing before the Assessing Officer on 28-11-2011, the copies of ledger folio of these accounts included in shortages were provided and supporting evidence, was not complete. Even such documentation

restricted to transactions of lesser value. It was repeatedly emphasized by the Assessing Officer to provide the complete documentation on this issue but, the assessee provided only a portion of the details and the entire records pertaining to this shortage account were not submitted.

19. The Id. DR further submits that the head of expenditure includes shortages of ₹.38,00,774/-, shortages account of ₹.35,72,178/- and finally quality cut and liquidated damages of ₹.7,99,26,147/-. Regarding the first two items, the shortages could be understandable and acceptable because, while handling coal in bulk, pilferages and loss due to moisture content is prevalent and contemplated. Even in the third item, payments withheld by the clients due to quality cut are conceivable and hence allowable. But all these claims of quality cut and shortages due to pilferage would be in the value of smaller digits. However, in the ledger folio, on quality cuts and liquidated damages wherein a debit of ₹.7,99,26,148/- is exhibited, there are amounts far exceeding ₹.10 lakhs, such items of expenses are extracted from the ledger folio and tabulated under para 4.2 in pages 2 & 3 of the assessment order. The Id. DR vehemently argued that these shortages cannot be on account of quality cut, deviation in moisture content or pilferage and the supplying associated enterprise M/s. Coal and Oil Ltd. had provided a Credit Note

to the extent of ₹.2,34,23,019/-, whereas, the short-supplied coal was ₹.9.37 crores.

20. The Id. DR vehemently argued that the assessee failed to produce the weighment bill in respect of these items to exhibit that the quantity of coal supplied in metric tons is as per its claim but such documentation was never made available. Further, he argued that the debit note being raised by the customers in these items included in ₹.7 cores is only on account of short supply and not due to quality cut on moisture content, ash content etc. When the loss is on account of short supply of such huge quantities, since the assessee imports the entire bulk cargo from its associated enterprise M/s. Coal & Oil Dubai, it should have in the ordinary course of business and prudence raised a debit note against M/s. Coal & Oil, Dubai, which restrict such claim to ₹.2.34 crores while the difference on account of such short supply is ₹.9.40 crores and the pricing of the coal supplied by the overseas entity to the extent of such short supply is not at Arm's length because it has billed the value of coal for a quantity, more than what is supplied. He submits that the Assessing Officer rightly adjusted an amount of ₹.7 crores in the value of international transactions and the cost of purchase of coal from the AE is reduced by ₹. 7 crores and the same is liable to be confirmed. But, however, since the assessee

filed a petition under Rule 29 of the Income Tax Rules (AT) Rules, 1963 for admission of additional evidences filed in the form of paper book, considering the volume of data involved, collation of complete documentation, the Tribunal may accept the additional evidence and as the Assessing Officer has no occasion to examine and verify the details placed on record, the Id. DR submits that the matter may be remanded to the file of the Assessing Officer for verification and adjudication on merits.

21. Heard both the parties and perused the material available on record. At the outset, upon the perusal of the final assessment order, we note that the Assessing Officer elaborately discussed the issue at para 4 of the assessment order. On verification of the ledger folio on quality cuts and liquidated damages, the Assessing Officer noted that the assessee has debited Rs.7,99,26,148/- and in the cases of amount exceeding ₹.10 lakhs, the details extracted from the ledger folio and tabulated under para 4.2 at pages 2 & 3 of the assessment order and such item of expenses are quantified at ₹.9,36,73,592/- and by reducing credit note provided by the associated enterprise Coal & Oil Ltd. on 04.12.2007, the Assessing Officer reduced a sum of ₹.2,34,23,019/- and the balance amount of ₹.7,02,50,573/- is considered for disallowance towards shortages and quality cut. The DRP noted that, when the Assessing Officer specifically

asked, the assessee failed to produce evidence of weighment of the goods dispatched and the DRP confirmed the disallowance. Therefore, on mere examination of the orders of AO/DRP clearly shows that there was no complete evidence in support of the contentions raised by the assessee before the authorities and also before this Tribunal by the Id. AR. We note that the contention of the Ld.AR that the Assessing Officer made the disallowance of ₹.7,02,50,723/- out of the total expenses claimed pertaining to shortage and quality cuts amounting to ₹.11,00,23,727/- was made since the assessee failed to furnish weighment bills or complete documentation to substantiate the actual quantity of coal supplied also establishes the same.

22. We find force in the arguments of Id. AR that the Assessing Officer's contention in the Draft Assessment Order dated 23.12.2011, stating that "the climatic condition of the Indian nation has not undergone any change during FY 2007-08 as compared to FY 2006-07," is erroneous and based on a presumption without any corroborative evidence on record. Such a broad assertion, in the absence of empirical data or expert analysis, cannot form a valid basis for rejecting the assessee's claim. Further, we find that the Assessing Officer has not brought on record any discrepancy in the physical stock, nor has there

been any adverse finding from any third-party verification or audit to support the claim that such short-supplied coal was lying unaccounted in closing stock.

23. We find that the majority of the documentary evidence-comprising detailed computations of the quantity of material received, relevant ledger accounts, material receipt certificates, payment details, debit notes, and client confirmations pertaining to deductions on account of higher moisture content, lower GCV, and shortages, substantiating expenses amounting to ₹.5,84,89,193/-, was duly furnished in the paper book filed before the ITAT on 23.05.2012 and as additional evidence vide petition filed before the ITAT on 10.07.2017, which supports the view of Id. DR that the assessee was required to establish that the expenditure which is unreasonably high had actually been incurred and documentation provided in the assessment proceedings but, the same is not sufficient, requires to provide the records and correspondence establishing each and every cost cut made by the customers, the copies of ledger folio of accounts included in shortages were provided before the ASSESSING OFFICER on 28-11-2011 supporting evidence, was not complete. Even such documentation restricted to transactions of lesser value and it was repeatedly emphasized by the Assessing Officer to provide the complete

documentation on this issue but, the assessee provided only a portion of the details and the entire records pertaining to this shortage account were not submitted.

24. Considering the petition under Rule 29 of the Income Tax Rules (AT) Rules, 1963 for admission of additional evidences filed in the form of paper book consisting of pages 1 to 27 containing various details of payment for imported coal, material receipt certificate No. 1 to 13, confirmation from the vendor M/s. Terra Energy Limited, etc, which are not placed before the Assessing Officer and had no occasion to verify the same, we are of the considered opinion that the additional evidences filed by the assessee needs complete verification by the Assessing Officer. Accordingly, we remand the matter to the file of the Assessing Officer for fresh consideration in terms of additional evidence filed and referred by us in the aforementioned paras and decide the issue in accordance with law. The assessee is at liberty to file evidences before the Assessing Officer to substantiate its claim. Thus, ground No. 2(2.1) is allowed for statistical purposes.

25. Ground Nos. 3 (3.1 to 3.3) raised by the assessee relates to transfer pricing issue-downward adjustment of ₹.6,05,31,118/-regarding purchases made by the assessee from its Associated Enterprises.

26. The brief facts leading to the issue are that the TPO found, that in 9 instances of purchases of coal from AE prices paid by the assessee are higher than the comparable uncontrolled market price and issued SCN dated 04.10.2011 proposing an addition of ₹. 18,72,25,570/- as excess payment being made to AE for purchase of coal. Further, upon examining the credit notes submitted, the TPO observed multiple inconsistencies with respect to 9th transaction referred to in the Show Cause Notice, the TPO pointed out that the credit note in question did not refer any specific invoice or explain the nature of the discount-whether due to rate adjustments, quality issues, or damages. the TPO held the credit notes unreliable relying on the principle of *falsus in uno, falsus in omnibus* and accordingly, the TPO, in the order passed u/s 92CA(3) of the Act, proposed a downward adjustment of ₹.18,72,25,570/- to the value of purchases made by the assessee from its AE.

27. The assessee filed its objection before the DRP. The DRP observed that, except for one credit note issued prior to the corresponding invoice which was rightly disregarded by the TPO, the remaining credit notes submitted by the assessee followed a proper chronological sequence comprising the contract, invoice, related correspondence, and subsequent issuance of the credit note. The DRP

accepted that these credit notes were issued on account of genuine commercial considerations and formed part of regular business practice. Accordingly, it directed that, for the purpose of determining the arm's length price, the discounted purchase cost be adopted in place of the original invoice value, excluding the one irregular credit note. Further, the DRP held that the benefit of the $\pm 5\%$ tolerance under section 92C(2) of the Act is applicable only where multiple comparable prices are determined, and the arithmetic mean is computed using the most appropriate method. Accordingly, pursuant to the DRP's directions, the Assessing Officer, in the final assessment order passed under section 143(3) r.w.s. 144C(13) and 92CA(3) of the Act dated 19.10.2012, made an addition of ₹6,05,31,118/- on account of transfer pricing adjustment for international transactions.

28. The Id. AR submits that the assessee had entered into international transactions involving the purchase of coal from its Associated Enterprise (AE). In the course of the transfer pricing assessment, the TPO identified nine specific transactions wherein the prices paid by the assessee to its AE were allegedly in excess of the prevailing market price. In response to this, the assessee submitted the following contentions:

-In 3 instances, the transactions were at arm's length considering the benefit of 5 percent range provided under proviso to section 92C(2) of the Act.

-In 3 instances, the transactions are at arm's length after considering the discount received by assessee from its AEs.

-In 3 instances, the transactions are at arm's length after considering the discount received by the assessee from its AEs and also the benefit of 5 percent range provided under proviso to section 92C(2) of the Act.

29. The DRP in its direction to Assessing Officer dated 31.08.2012, allowed the benefit of the credit notes except in one case where the credit note was erroneously dated before the date of invoice. In this regard, the Id. AR submits that the DRP/Assessing Officer has erred both in law and on facts by disregarding the credit note in one instance solely on the ground that it was issued prior to the date of the corresponding invoice in respect of the vessel Mairouli. The Id. AR submits that the issuance of the credit note dated 06.03.2008 prior to the invoice dated 15.03.2008, must be viewed in the context of the overall chronology of the transaction, particularly the fact that the underlying purchase contract was executed on 22.02.2008. It was argued that the contract date being earlier than both the credit note and the invoice establishes the commercial foundation of the transaction and provides clear evidence that the terms of discount or

price adjustment could have been mutually agreed upon at the time of entering into the contract.

30. The Id. AR vehemently contends that it is a well recognized commercial practice, especially in commodities trading such as coal, for pricing adjustments or discounts to be negotiated at the time of contract execution or soon thereafter, even before the actual shipment or invoicing takes place. Accordingly, the credit note issued on 06.03.2008, though pre-dating the invoice, was consistent with such pre-agreed contractual terms. The discount reflected in the credit note, therefore, is not retrospective or arbitrary but a manifestation of the terms that were already commercially agreed upon between the parties as part of the contract dated 22.02 2008. It was further submitted that there is no legal requirement under the Income-tax Act or Transfer Pricing Regulations that a credit note must necessarily post-date the invoice in order to be valid. What is relevant is whether the credit note reflects a genuine commercial arrangement and whether it corresponds to the contractual relationship between the parties. The assessee emphasized that the transaction with the AE was conducted on a principal-to-principal basis and that the AE retained the right to issue discounts based on commercial terms agreed at the time of

contracting. Thus, the Id. AR submits that the mere fact that the credit note was dated before the invoice cannot be a valid ground to disregard its authenticity or commercial substance, particularly when the contract itself pre-dates both documents and governs the transaction.

31. The Id. AR drew our attention to sworn affidavit furnished by the supplier, M/s Coal & Oil Company DMCC, confirming the genuineness of the credit note in question, which was filed before ITAT on 01.10.2014 and argued that the said sworn testimony from the supplier, clearly establishes that the incorrect date on the credit note was merely a clerical error and does not undermine the substance or authenticity of the transaction. The fact that the credit note was duly accounted for in the books of the supplier prior to the end of the financial year further corroborates the commercial legitimacy of the transaction and thus, the subjected transactions are demonstrably at arm's length price, and therefore, no transfer pricing adjustment or addition is warranted on this account.

32. The Id. AR drew our attention to pages 49-50 of the Paper Book, a rectification petition under section 154 of the Act, dated 30.01.2012

seeking rectification of the error apparent on record in the original assessment order, by furnishing the revised arm's length price computations after giving due effect to the discounts extended through the aforesaid credit notes and placed on record the detailed computation at page 22 of the written submission. He contends that the rectification petition clearly substantiates the position that, upon inclusion of the discounts and credit notes, the pricing of the international transactions falls within the permissible tolerance range under transfer pricing regulations, thereby justifying the claim that the transactions were carried out at arm's length. Thus, the Id. AR prayed to direct the ASSESSING OFFICER/TPO to delete the additions of ₹. 6,05,31,118/- or alternatively, remand the matter back to the Assessing Office/TPO for verification of the additional evidence and consideration in accordance with the law.

33. Heard both the parties and perused the material available on record. The assessee adopted Comparable Uncontrolled Price ('CUP') method as the most appropriate method to benchmark its international transaction. Upon perusal of the transactions, the TPO noted that the assessee claimed to have received discounts via credit notes from its Associated Enterprise (AE) in six out of nine purchase transactions and

had sought corresponding adjustments to the purchase price. The TPO further observed that other credit notes submitted by the assessee also lacked clarity and failed to establish a clear linkage to specific transactions in view of these deficiencies and concluded that the assessee's claim for adjustments could not be accepted. We find the DRP opined that except for one credit note which was issued prior to the corresponding invoice rightly disregarded by the TPO, but for the remaining credit notes held the assessee followed a proper chronological sequence comprising the contract, invoice, related correspondence, and subsequent issuance of the credit note. The Ld AR raised a pertinent question before us as to "What is relevant is whether the credit note reflects a genuine commercial arrangement and whether it corresponds to the contractual relationship between the parties. We find sworn affidavit furnished by the supplier, M/s Coal & Oil Company DMCC, confirming the genuineness of the credit note in question, which was filed before ITAT on 01.10.2014, states as under:

"That the credit note was erroneously dated as 06.03.2008 i.e., before the date of invoice viz. 15.03 2008. However, we confirm that such sales discount/credit note was provided for and accounted for in the books of our company on 31.03.2008 and accordingly, the aforesaid transaction/credit note is genuine and reliable."

34. On perusal of the above, we find force in the arguments of the Id. AR that the said sworn testimony from the supplier, clearly establishes that the incorrect date on the credit note was merely a clerical error and does not undermine the substance or authenticity of the transaction. Further, we note that the credit note was duly accounted for in the books of the supplier prior to the end of the financial year further corroborates the commercial legitimacy of the transaction and we find no dispute from respondent revenue in this regard. Further, we find the assessee filed rectification on 30.01.2012 under section 154 of the Act, which specifically seeking the error in the original assessment by furnishing revised arm's length price, the detailed computation is reproduced as under:

Name of Vessel	Rate before discount	Qty	Price before discount	Discount	Price after discount	Index Price	Range	Conclusion
Coastal Pride 29	130	69,950	35,72,83,615	-	35,72,83,615	34,02,73,484	35,72,87,158	Arm's length
Great Happy	94.17	44,101	16,15,51,173	-	16,15,51,173	15,88,46,206	16,67,88,516	Arm's length
Marlebone	130.56	48,000	24,73,64,060	-	24,73,64,060	24,04,42,921	25,24,65,067	Arm's length
F Duckling	130.8	39,793	20,01,48,551	1,78,21,400	18,23,27,151	18,09,96,582	19,00,46,411	Arm's length
Dd Vigor	112.22	39,950	17,65,47,983	1,59,30,497	16,06,17,486	15,95,64,302	16,75,42,517	Arm's length
Nueva Esperanza	150	49,555	29,29,44,382	3,25,23,487	26,04,20,895	26,25,80,191	27,57,09,201	Arm's length
Medi Dubai	151	50,925	30,31,60,324	3,56,75,634	26,74,84,690	26,87,40,123	28,21,77,129	Arm's length
Sea Breez Bulker	163.7	46,907	30,69,93,462	2,81,48,982	27,88,44,480	27,80,68,716	29,19,72,152	Arm's length
Mairouli	163.5	49,282	32,59,30,203	3,08,51,124	29,50,79,079	29,51,94,259	30,99,53,972	Arm's length

35. On perusal of the above, we find force in the arguments of the Id. AR that the above said revised arm's length price computation supports the inclusion of discounts and credit notes of international transaction within tolerance range under Transfer Pricing regulations. Therefore, we deem it proper to remand the matter to the file of the Assessing Officer/TPO for verification of additional evidence and to pass order in accordance with law. The assessee is at liberty to file evidence, if any, in support of its claim. Thus, ground No. 3 raised by the assessee is allowed for statistical purposes.

36. Ground No. 4 (4.1 & 4.2) raised by the assessee is with regard to TDS credit to the tune of ₹.1,10,71,615/-.

37. The Id. AR submits that while passing the final assessment order dated 19.10.2012, the Assessing Officer has failed to grant credit for Tax Deducted at Source (TDS) amounting to ₹.21,10,71,615/- and he argued that this omission is particularly noteworthy given that the said TDS credit was duly acknowledged and considered by the Assessing Officer in the tax computation annexed to the draft assessment order dated 23.12.2011, but, however, in the final assessment order, the same has been denied. Thus, the Id. AR prayed to grant the said TDS credit of

Rs.1,10,71,615/- in computing the final tax liability for the assessment year under consideration.

38. The Id. DR fairly conceded the above position.

39. Heard both the parties and perused the material available on record. We find as rightly pointed out by the Id. AR, the computation of tax dated 23.12.2011 is rightly annexed to draft assessment order, but, however, in the final assessment order, no such TDS credit was given, which is clear from computation of income annexed to final assessment order dated 18.10.2012. We find no such direction of the DRP to as evident from pages 11 & 12 of the DRP order. Therefore, considering the facts and circumstances of the case along with evidence on record, we direct the ASSESSING OFFICER/TPO to grant the TDS credit of ₹.1,10,71,615/- as acknowledged in the computation of tax annexed to draft assessment order dated 23.12.2011. Thus, ground No. 4.1 raised by the assessee is allowed for statistical purposes.

40. In view of the above decision in all the grounds above, we find the ground raised in ground No. 4.2 towards levy of interest under section 234B of the Act is consequential in nature and requires no adjudication.

41. In the result, the appeal filed by the assessee is allowed for statistical purposes.

Order pronounced on 06th February, 2026 at Chennai.

Sd/-
(JAGADISH)
ACCOUNTANT MEMBER

Sd/-
(S.S. VISWANETHRA RAVI)
JUDICIAL MEMBER

Chennai, Dated, 06.02.2026

Vm/-

आदेश की प्रतिलिपि अग्रेषित/Copy to:

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