

आयकर अपीलीय अधिकरण, हैदराबाद पीठ
IN THE INCOME TAX APPELLATE TRIBUNAL
Hyderabad 'B' Bench, Hyderabad

BEFORE SHRI VIJAY PAL RAO, VICE PRESIDENT
AND
SHRI MANJUNATHA G. ACCOUNTANT MEMBER

आ.अपी.सं / **ITA No.1045/Hyd/2025**
Assessment Year 2020-2021

Auro Infra Private Limited, Hyderabad. PIN – 500 081. PAN AAOCA6755B Telangana.	vs.	The DCIT, Circle-1(1), Hyderabad.
(Appellant)		(Respondent)
निर्धारिती द्वारा / Assessee by:	Sri BG Reddy, Advocate	
राजस्व द्वारा / Revenue by:	Dr. Narendra Kumar Naik, CIT-DR	
सुनवाई की तारीख / Date of hearing:	09.02.2026	
घोषणा की तारीख / Pronouncement:	11.02.2026	

आदेश / ORDER

PER VIJAY PAL RAO, VICE PRESIDENT :

This appeal by the Assessee is directed against the Order dated 26.03.2025 of the Pr. Commissioner of Income Tax, Hyderabad-1, Hyderabad, passed u/sec.263 of the Income Tax Act [in short "the Act"], 1961, for the assessment year 2020-2021.

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

1. *"The order of the Ld. Principal Commissioner of Income Tax, Hyderabad-1 (PCIT) dt. 26/03/2025 passed u/s 263 of the IT Act, 1961 for the Asst. Year 2020-21 is erroneous and unjustified both on facts of the case and in law.*
2. *The Ld. PCIT erred in invoking provisions of sec. 263 of the IT Act and issuing directions to the Assessing Officer to reframe the assessment afresh as per the provisions of law on the specious ground that that the aspects of disallowance u/s. 14A read with Rule 8D were not verified by the Assessing Officer during the assessment proceedings.*
3. *The Ld. PCIT ought to have appreciated that the provisions of sec. 14A read with Rule 8D cannot be invoked to the subject year as the appellant has neither earned nor claimed exempt income in the return of income filed for the year.*
4. *The Ld. PCIT ought not to have overlooked the judgment of Supreme Court in the case PCIT vs. Oil Industry Development Board [2019] 262 Taxman 102, wherein the Apex Court upheld the decision of Delhi High Court that no disallowance u/s. 14A could be made in the absence of any exempt income.*
5. *The Ld. PCIT erred in observing that the amended provisions of sec. 14A with effect from Asst. Year 2022-23 are applicable retrospectively and even to the year under consideration when the Memorandum to the Finance Bill 2022 clearly states that the amendment is applicable prospectively.*
6. *The Ld. PCIT erred in observing that the clauses (i) and (ii) of Rule 8D (2) of 1 T Rules are applicable to the facts of the case when no direct OR indirect expenditure was incurred by the company to earn hypothetical OR anticipated exempt income.*

7. *The Ld. PCIT ought to have appreciated that the interest free funds available to the appellant in the form of equity, share premium. Reserves & surplus far exceed the quantum of tax-free investments made by the appellant in this year and in the earlier years and hence Rule 8D(2)(i) is not applicable to the case of the appellant.*
8. *The Ld. PCIT ought to have further considered that no indirect expenditure was incurred by the company comp to earn notional exempt income as the investments were all made in subsidiaries, Joint Ventures and Jointly controlled entities and therefore clause (ii) of Rule 8D (2) is also not applicable to the facts of the case.”*

3. At the time of hearing, the learned Authorised Representative of the Assessee has submitted that the Assessing Officer in the consequential order passed in pursuance to the impugned revision order has not made any disallowance/addition on the issue of sec.14A of the act. He has filed copy of the assessment order dated 21.05.2025 passed by the Assessing Officer in pursuance to the directions of the PCIT u/sec.263 of the Act and submitted that this appeal of the assessee becomes infructuous.

4. On the other hand, the learned DR has not disputed the fact that the Assessing Officer has passed the consequential order dated 21.05.2025 whereby no

disallowance was made u/sec.14A of the Act which was the subject matter of the proceedings u/sec.263 of the Act.

5. Having considered the submissions of the learned Authorised Representative of the Assessee and the learned DR and careful perusal of the consequential order passed by the Assessing Officer in pursuance to the Order u/sec.263, we find that the Assessing Officer has given the finding in Paras-3.3 to 3.8 of the consequential order dated 21.05.2025 as under:

3.3 Reasons for inference drawn that no variation is required on this issue: The detailed submissions filed by the assessee on 13.06.2025 and 27.12.2025 have been carefully examined in conjunction with the audited financial statements, the mandate of the Revision Order u/s 263, and the prevailing legal landscape for Assessment Year 2020-21. Based on this comprehensive review, the following reasons justify the inference that no variation is required.

3.4 Factual Verification of "Nil" Exempt Income: A thorough examination of the assessee's financial records was conducted to determine the actual receipt of exempt income. It is factually established from the Profit & Loss Account and Note No. 21 ('Other Income') that the assessee has not earned, accrued, or received any exempt income (such as dividends) from the subject investments in unquoted equity shares during the previous year relevant to the current Assessment Year. The investments in Optionally Convertible Debentures (OCDs), which constitute a significant portion of the portfolio, yielded interest income that has been correctly offered to tax under the head 'Income from Other Sources' and has not been claimed as exempt. Consequently, the core factual premise for invoking Section 14A—the existence of exempt income—is absent in this case.

(Extract of Profit and Loss Account for year ended on 31.03.2020 and Note No. 21)

Aurobindo Realty & Infrastructure Private Limited*(Formerly Aurobindo Infra Projects Private Limited)*

CIN: U45300TG2016PTCL11433

Standalone Statement of Profit and Loss for the year ended March 31, 2020

(All amounts are in Indian Rupees Millions except share data and unless otherwise stated)

	Notes	Year ended March 31, 2020	Year ended March 31, 2019
INCOME			
Revenue from operations	20	3,662.66	1,467.33
Other income	21	389.64	178.29
TOTAL INCOME		4,052.50	1,645.62
EXPENSES			
Cost of raw material and components consumed	22	805.26	-
Project Direct Expenses	23	1,985.31	1,713.82
(Increase)/Decrease in Construction Work in Progress	24	(131.17)	(748.26)
Employee benefit expenses	25	453.48	198.86
Finance costs	26	286.05	169.28
Depreciation and Amortization expenses	27	78.25	13.70
Other expenses	28	64.23	38.56
TOTAL EXPENSES		3,541.42	1,385.96
PROFIT BEFORE TAX		511.08	259.66
TAX EXPENSE			
Current tax	29	120.29	80.01
Deferred tax	14	17.93	1.34
TOTAL TAX EXPENSE		138.22	81.35
PROFIT FOR THE YEAR		372.86	178.31
OTHER COMPREHENSIVE INCOME (OCI)			
Other comprehensive income not to be reclassified to profit or loss in			
Re-measurement gains / (losses) on employee defined benefit plans		7.50	0.10
Deferred tax credit		(1.89)	(0.03)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR (Net of tax)		5.61	0.07
TOTAL COMPREHENSIVE INCOME FOR THE YEAR (net of tax)		378.47	178.38
EARNINGS PER EQUITY SHARE	30		
Basic	(Rs.)	2.77	1.43
Diluted	(Rs.)	2.28	1.17
Nominal value per equity share.	(Rs.)	10.00	10.00
Corporate Information & Summary of significant accounting policies	18.2		

The accompanying notes are an integral part of the financial statements.

As per our report of even date.

For **K. NAGARAJU & ASSOCIATES**

Chartered Accountants

Firm Registration Number: 0022705

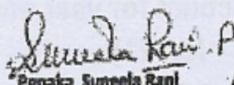
K. NAGARAJU


Partner

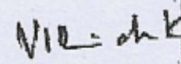
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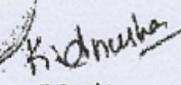
Hyderabad

Sep 19, 2020

For and on behalf of the Board of Directors of
Aurobindo Realty & Infrastructure Private Limited

Penala Suneeta Rani
 Director
 DIN: 02530572


Penala Rohit Reddy
 Director
 DIN: 02624136


V Ravindra Kumar
 Chief Executive Officer


K. Anusha
 Company Secretary

	For Year ended March 31, 2020	For Year ended March 31, 2019
21 OTHER INCOME		
Interest income on financial assets (carried at amortised cost)		
Long Term Investments in Debentures	157.11	187.11
Fixed Deposits	8.21	8.21
Loans to Related Parties	222.14	222.14
Interest on Others	0.12	0.12
Sub-Lease Rent Revenue	1.62	1.62
Other Income	0.44	0.44
	389.64	399.64

3.5 Adherence to Binding Judicial Precedents (The "No Exempt Income" Rule):

The legal position regarding the necessity of exempt income for triggering Section 14A disallowance is well-settled for the period under consideration:

- **Supreme Court Jurisprudence:** The Hon'ble Supreme Court in *PCIT vs. Oil Industry Development Board* [2019] 262 Taxman 102 (SC) and *PCIT vs. GVK Project & Technical Services Ltd.* [2019] 264 Taxman 76 (SC) has consistently upheld the principle that in the absence of any exempt income, the provisions of Section 14A read with Rule 8D cannot be invoked to make a disallowance.
- **High Court Rulings:** This is further supported by the Hon'ble Delhi High Court in *Cheminvest Ltd. vs. CIT* [2015] 378 ITR 33 (Del) and *IL&FS Energy Development Co. Ltd. vs. PCIT* [2017] 250 Taxman 174 (Del), which clarified that Section 14A envisages a correlation between expenditure and actual tax-free income; if no such income is received or receivable, the disallowance mechanism is not triggered.

3.6 Prospective Nature of the Finance Act 2022 Amendment: While the Pr. CIT's revision order was based on the Explanation to Section 14A (inserted by the Finance Act, 2022), which seeks to mandate disallowance even in the absence of exempt income, its applicability to the present case is restricted:

- **Judicial Determination of Timeline:** The Hon'ble Delhi High Court in the landmark case of *PCIT vs. ERA Infrastructure (I) Ltd* [2022] 288 Taxman 384 (Del) has explicitly held that this amendment is **prospective in nature** and applies only from **01.04.2022** onwards.
- **Conclusion for A.Y. 2020-21:** Since the case under consideration pertains to A.Y. 2020-21, the substantive law prevailing at that time—which prohibited

disallowance in the absence of exempt income should be followed. The 2022 amendment cannot be applied retrospectively to alter the tax liability of the assessee for a prior period as held by the different High Courts.

3.7 Utilization of Interest-Free Own Funds: Furthermore, regarding the interest component of the potential disallowance, the assessee has demonstrated the availability of sufficient **interest-free own funds** (Share Capital and Reserves) amounting to Rs. 731.58 Crores as on 31.03.2020. This amount exceeds the total investment in unquoted equity shares of approximately Rs. 48.17 Crores. In accordance with the ratio laid down by the Hon'ble Karnataka High Court in **CIT vs. Microlabs Ltd [2017]**, a presumption arises that such investments were funded entirely by interest-free sources, thereby precluding any disallowance of interest expenditure.

3.8 Final Conclusion: In light of the finding that **no exempt income was earned** and respectfully following the binding ratio of the Hon'ble Supreme Court and the jurisdictional High Courts regarding the prospective nature of the 2022 amendment, the explanation of the assessee is found to be legally sound and factually correct. Therefore, it is inferred that no variation is required to be made on this issue.

6. Thus, when the Assessing Officer has not made any disallowance in the order dated 21.05.2025 passed in pursuance to the impugned order passed u/sec.263 of the Act, then no grievance of the assessee is left in the present appeal. Accordingly, in the facts and circumstances of the case and in view of the consequential order passed by the Assessing Officer, the present appeal of the assessee becomes infructuous and the same is dismissed.

7. In the result, appeal of the Assessee is dismissed as infructuous.

Order pronounced in the open Court on 11.02.2026.

Sd/-
[MANJUNATHA G.]
ACCOUNTANT MEMBER

Sd/-
[VIJAY PAL RAO]
VICE PRESIDENT

Hyderabad, Dated 11th February, 2026.

VBP

Copy to :

1.	Auro Infra Private Limited, 21st Floor, Wing A Galaxy, Plot No.1, Sy.No.83/1, Hyderabad Knowledge City, Raidurg, Hyderabad – 500 081. Telangana.
2.	The DCIT, Circle-1(1), Hyderabad.
3.	The Pr. CIT, Hyderabad-1, I.T. Towers, Professor Elyas Burney Road, AC Guards, Masab Tank, Hyderabad. PIN – 500 004. Telangana.
4.	The DR, ITAT, “B” Bench, Hyderabad.
5.	Guard file.

BY ORDER