आयकर अपीलीय अधिकरण, **'सी'** न्यायपीठ**,** चेन्नई।
IN THE INCOME TAX APPELLATE TRIBUNAL
'C' BENCH: CHENNAI

श्री एबी टी. वर्की, न्यायिक सदस्य एवं
श्री जगदीश**,** लेखा सदस्य **के समक्ष**

BEFORE SHRI ABY T. VARKEY, JUDICIAL MEMBER AND
SHRI JAGADISH, ACCOUNTANT MEMBER

आयकर अपील सं./**ITA Nos.1946 to 1948, 1949 & 1950/Chny/2025**
निर्धारणवर्ष**/Assessment Years: 2011-12 to 2013-14, 2017-18 & 2018-19**

M/s. Alkraft Thermotechnologies- Pvt. Ltd., 35-A and B/1, Ambattur Industrial Estate, Ambattur, Chennai-600 058. [**PAN: AAACA 9304 Q**]	**v.**	The DCIT, Company Circle-1(1), Chennai.
(अपीलार्थी**/Appellant)**		**(**प्रत्यर्थी**/Respondent)**

अपीलार्थी की ओर से/ Appellant by	:	Mr.R. Vijayaraghavan, Adv.
प्रत्यर्थी की ओर से /Respondent by	:	Ms.R. Anitha, Addl.CIT
सुनवाईकीतारीख/Date of Hearing	:	26.11.2025
घोषणाकीतारीख /Date of Pronouncement	:	18.02.2026

आदेश **/ O R D E R**

PER ABY T. VARKEY, JM:

These are appeals preferred by the assessee against the order of the Learned Commissioner of Income Tax (Appeals)/NFAC, (hereinafter referred to as 'Ld.CIT(A)'), Delhi, dated 09.05.2025 & 08.05.2025 for the Assessment Years (hereinafter referred to as 'AY') 2011-12 to 2013-14, 2017-18 & 2018-19. Since the issues involved are common, all the appeals for all the assessment years were heard together. Both the parties also argued them together raising similar arguments on these

issues. Accordingly, for the sake of convenience and brevity, we dispose all the appeals by this consolidated order.

2. The sole common issue involved in all the appeals relate to the deduction claimed by the assessee u/s 80-IC of the Act in respect of the profits derived by its Uttarakhand Unit (in short 'UTK Unit'). The facts in brief are that, the assessee is engaged in the business of manufacture of engine cooling systems, having its principal manufacturing unit at Chennai. The major customers of the assessee are Tata Motors and Ashok Leyland. In FY 2010-11, the assessee had set-up additional manufacturing and assembly unit in a notified area of Uttarakhand pursuant to Investment Subsidy Scheme bearing No. 1(10)/2001-NER dated 01.08.2003 read with Excise Notification No. 50/2003 dated 10.06.2003. It was brought to our notice that, the UTK facility was established to cater to the requirements of complete cooling systems of Ashok Leyland, who had also set up a new truck manufacturing unit in Uttarakhand. The assessee procured the principal items viz., radiator and inter-cooler from its Chennai Unit and all other parts were procured locally and thereafter processed and assembled at the UTK Unit, and the complete engine cooling system module was supplied to Ashok Leyland. According to the assessee, the UTK manufacturing unit qualified as an 'eligible unit' u/s 80-IC of the Act. Accordingly, separate accounts were

drawn up and audit report in Form 10CCB was obtained by the assessee and the profits derived by the UTK Unit was claimed by way of deduction u/s 80-IC of the Act.

3. The case of the assessee was selected for scrutiny in the first year of claim i.e. AY 2011-12. The AO is noted to have called for various details and explanations to examine the deduction claimed u/s 80-IC of the Act. After examining the submissions, the AO was of the view that, the assessee did not meet the requirements of Section 80-IC(2)(a) i.e., the assessee was not manufacturing any product in the UTK Unit and that, the assessee was also in violation of Section 80-IC(4)(i) of the Act as it was formed by splitting up of its existing business. The AO accordingly disallowed the deduction of Rs.1,78,27,430/- claimed u/s 80-IC of the Act in AY 2011-12 on the ground of no manufacturing and splitting up of the existing business. On appeal, the Ld. CIT(A) confirmed the action of the AO. It is seen that, the AO's successors following the order of AY 2011-12, disallowed the deduction claimed by the assessee u/s 80-IC of the Act in succeeding AYs 2012-13, 2013-14, 2017-18 & 2018-19 as well and, the Ld. CIT(A) also following the order of his predecessor confirmed the impugned disallowance(s).

4. Since the issues raised and the disallowances involved in all the appeals are similar, we first take up the appeal filed by the assessee for

AY 2011-12 in ITA No.1946/Chny/2025 as the lead case whose result shall follow mutatis mutandis in the subsequent AYs.

5. The AO in the assessment order of AY 2011-12, observed that, the assessee had three facilities viz., principle manufacturing unit at Chennai and assembling units at Uttarakhand and Jharkhand. He noted that, the raw materials were imported and locally procured to manufacture radiators, inter coolers and oil coolers at Chennai. The AO observed that, the assessee had setup an assembly plant at UTK Unit which would procure the radiators and inter coolers from Chennai Plant, and other components required for assembly were purchased locally, and thereafter the radiators, inter coolers and other parts were being assembled at UTK Unit and supplied exclusively to Ashok Leyland. According to the AO, the analysis of the nature of business of the UTK Unit showed that, it was only an assembly unit and not a manufacturing unit. The AO was of the view that, the assessee had split up its manufacturing process whereby the core manufacturing process of radiators and inter coolers was undertaken at Chennai plant and that the UTK Unit was only assembling and fitting these components along with other parts in a frame to form a module. The AO observed that, the final product i.e. the complete cooling systems supplied to Ashok Leyland at Uttarkhand was being manufactured and supplied by the Chennai Plant to Ashok Leyland at

Chennai as well. The AO observed that, the product was the same and customer was the same and that, only splitting was done due to location of the consumer manufacturing facility. The AO observed that the vital test of 'splitting-up of business' is that whether there was any addition to the existing capacity of the assessee, by putting up new unit. According to AO, the manufacturing capacity did not increase due to the UTK Unit and therefore the assessee was formed by splitting up of the existing business at the Chennai Unit. The AO further observed that, the UTK Unit was not undertaking any 'manufacture' as its input and output remained the same and therefore, the assembly process cannot be termed as 'manufacture' or 'production'. For arriving at this conclusion, the AO referred to the investment of Rs.1.98 crores made by the assessee at UTK Unit, which in his view, was a meagre investment and did not commensurate with a manufacturing facility. With these observations, the AO held that the conditions laid down in Section 80-IC had not been met by the assessee and thus disallowed the deduction claimed u/s 80-IC of the Act.

6. Aggrieved by the above order of the AO, the assessee carried the matter in appeal before the Ld. CIT(A), who confirmed the impugned disallowance, by observing as under:-

> "The submissions of the appellant have been perused. The appellant has not been able to counter the findings of the Ld. AO that the critical component of the engine cooling system viz. radiator, intercoolers and oil coolers are manufactured only at Chennai unit and not in the other two units at

Uttarakhand and Jharkhand. The other two units are only the assembling units. Out of the two assembling units, for one assembling unit at Uttarakhand, the assessee has claimed deduction u/s 80IC of the Act. It is further noticed that there is no difference between the products manufactured at Chennai and products coming out of Uttarakhand Unit including the product variant supplied to a particular variant or model of Ashok Leyland Vehicle. It is seen that out of the entire manufacturing cycle from raw material to module which was carried out at Chennai was split and the last stage of assembling was only taken to Uttarakhand which points to the splitting of the business of the assessee. Further, the Uttarakhand unit caters to the same customers i.e. Ashok Leyland. The appellant contention that complete engine cooling system was being manufactured at Uttarakhand is not correct. The contention of the appellant in respect of additional capacity addition and value addition cannot be considered as the both are linked to increased production but cannot at the same time justify the splitting of the business. The Ld. AO's findings that the appellant had claimed deduction u/s 80IC of the Act wrongly by splitting up of his business is found to be correct and is sustained.

In respect of the contention of the appellant that manufacturing of an article or thing was been done at the Uttarakhand Plant is also not found to be tenable. It is seen that the identity of the raw material and the end product remains the same. 'Manufacture' is a transformation of an article, which is commercially different from the one, which is converted. The essence of manufacture is the change of one object to another for the purpose of making it marketable. The essential point thus is that, in manufacture something is brought into existence, which is different from that, which originally existed in the sense that the things produced is by itself a commercially different commodity whereas in the case of processing, it is not necessary to produce a commercially different article. These facts are not attested to by the process undertaken by the appellant. The appellant contention that it had got Central Excise Department Registration Certificate as a manufacturing unit cannot be considered as the criteria adopted by the Excise Department to declare a manufacturing is different from the criteria as mention in Income Tax Act. Further, Section 2(29BA) of the Act does not apply to the appellant.

Hence, the Ld. AO's finding that the appellant had not undertaken manufacturing is found to be correct and the findings is sustained."

7. Being aggrieved by the above order, the assessee is now in appeal before us.

8. Assailing the action of lower authorities, the Ld. AR for the assessee first took us through the relevant provisions of Section 80-IC of the Act and submitted that, the assessee had complied with the requirements by setting up a new manufacturing industrial undertaking in State of Uttarakhand with new plant & machinery, ensuring that the value of old machinery does not exceed 20% of the total investment in plant and machinery and, it is a new and fresh business and, not formed by splitting or reconstruction of the existing business. Countering the findings of the lower authorities, the Ld. AR took us through the flowchart of the manufacturing process carried out at the Uttarakhand plant, which is found placed at Pages 3–5 of Paper Book I. It was shown to us that, the final product viz., the complete engine cooling system module manufactured at the UTK Unit was a result of multiple technical processes undertaken at Uttarakhand. The Ld. AR pointed out the details of components sourced from Chennai and locally procured parts which are calibrated, processed, assembled, tested and brought into a commercially distinct article. He invited our attention to Page Nos. 7-20 of Paper Book I which contained the pictures of the components of the complete engine cooling system module and thereafter, Pg. No. 21 of the Paper Book I which had the picture of the final product and thus argued that, the final product delivered is a commercially distinct and individually different

identifiable article than the inputs as, it is not a radiator or intercooler, but it is a complete cooling system. The Ld. AR thus argued that, the assembly of parts procured from outside will amount to manufacture when the completed product is known commercially as a different product.

9. To further buttress his contention that the UTK Unit is engaged in manufacture, the Ld. AR invited our attention to the excise registration and exemption wherein it is mentioned that, the UTK Unit is engaged in manufacture of Engine Cooling System Module and is entitled to exemption for Excise Duty. He thus submitted that, unless the assessee carries out manufacture and liable for excise duty, requirement of granting exemption will not arise. The Ld. AR further took us through the details of value additions undertaken at UTK Unit to show that the UTK Unit was not a pass-through unit, as being alleged by lower authorities, but was actually manufacturing a distinct product. It was brought to our notice that, the value of goods procured from Chennai plant was in the range of Rs.5800/- (approx.) whereas the value-added cost incurred by the UTK Unit locally was Rs.3000/- (approx.) which was 35% to 40% of the total cost. He thus submitted that, the UTK Unit was indeed engaged in manufacture and thus qualified for deduction u/s 80-IC of the Act.

10. Addressing the allegation that the UTK Unit was formed by splitting up of existing business, the Ld. AR submitted that, it was a case of expansion of business and not splitting up. The Ld. AR demonstrated through the details of quantities manufactured by Chennai & UTK Units that, there was an increase in the overall capacity of the assessee. The Ld. AR explained to us that, when Ashok Leyland had established a new unit in Uttarakhand, the assessee was required to augment its capacity to service both Ashok Leyland Chennai & Uttarakhand. He submitted that, it is a universal commercial practice that component manufacturers (Tier-I,II vendors) set up satellite units near the Original Equipment Manufacturer ('OEM'), to avoid high transport costs and to ensure real-time supply, as otherwise the customer would source the product from another vendor situated nearby. It was thus submitted that, only because the product and the customer at Chennai and Uttarakhand was the same does not suggest that there was no manufacturing or splitting up of business. Rather, according to the Ld. AR, the fact that Ashok Leyland had increased its capacity by setting up new unit at Uttarakhand supports the assessee's case that the customer's new facility created fresh demand, and this additional demand was met by additional capacity at UTK Unit and not by splitting up existing production capacity. The Ld. AR

of the assessee has also filed written submissions which has been taken on record.

11. Per contra, the Ld. DR appearing for the Revenue vehemently supported the order of the lower authorities. The Ld. DR submitted that, the activities being conducted by the assessee at the UTK Unit was not manufacture but more of a packing for convenience for the end-customer. According to him, the critical components were being manufactured at the Chennai Unit and the UTK Unit was only packing the same using frames, which in his view was not manufacture. The Ld. DR urged that, manufacture implies a change by which a new and distinct article must emerge having a distinct name, character and use. He placed reliance on the decision of the ITAT Ahmedabad in the case of **Acqua Minerals (P.) Ltd vs. DCIT (96 ITD 417)**, wherein the activity of packaging drinking mineral water was not held to be 'manufacturing'. He further referred to several decisions rendered in the context of excise laws wherein, in absence of any value addition, it was held that there was no manufacture as there was no change in the character of the goods. The Ld. DR further submitted that, the reliance placed by the assessee on the excise license granted to the UTK Unit was misplaced. He further argued that, the UTK Unit was a consequence of splitting up of the existing business as the product being manufactured and the customer being

serviced was same as that of the Chennai Unit. According to him, the quantitative details furnished by the assessee was not relevant in the context of the case and that there was no evidence of any additional production capacity. According to him therefore, the decision of the Hon'ble Supreme Court in the case of **Textile Machinery Corporation Ltd. vs CIT (107 ITR 195)** was squarely applicable to the present case.

12. We have heard the rival submissions of the parties and perused the relevant materials on record. It is not in dispute that, the assessee had set up a new unit in the backward area of Uttarakhand, prior to 01.04.2012 and therefore such unit qualified as an eligible unit for the purposes of Section 80-IC of the Act. The question before us however is whether the assessee had fulfilled the conditions precedent in Section 80-IC(2) of the Act so as to claim deduction in respect of the profits derived by their UTK Unit. The lower authorities have observed that, Section 80-IC(2)(a) of the Act provides that, it applies to an undertaking which *begins to 'manufacture' or 'produce' any article or thing*. According to the lower authorities, the UTK Unit set up by the assessee was not engaged in *'manufacture or production of any article or thing'* because the input and output product remained the same. Even the Ld. DR before us has claimed that, the UTK Unit was essentially a packing of convenience unit and was not engaged in manufacturing. From the facts placed before us,

the assessee has shown that, the UTK Unit was selling engine cooling system module to its customer, M/s Ashok Leyland. The assessee is not disputing the fact that, the UTK Unit was procuring critical components such as radiator and inter-coolers from its Chennai Unit but it is their case that, value additions took place at the UTK Unit which was processing and assembling the final product in a scientific and complex manner involving different steps and processes. Having perused the flow charts placed before us, at Pages 3-6 of Paperbook-I, it is observed that, the assessee would obtain the radiators and inter-coolers from their non-eligible unit at Chennai and thereafter, the UTK Unit acquired several additional components locally which was then processed and assembled at the UTK Unit, resulting in a final integrated engine cooling system module. The question which arises for our consideration is whether, the act of processing and assembling of different components into an integrated engine cooling system module system which is carried out in a scientific manner with the use of plant & machinery, would qualify as a manufacturing activity or not, u/s 80-IC(2)(a) of the Act.

13. After giving our thoughtful consideration to the submission of the parties and perusal of the judicial decisions relied upon by the Ld. AR, we note that the findings rendered by the lower authorities are not well founded. From the material on record, it is observed that the UTK Unit

was sourcing components from Chennai and the locally procured parts were being calibrated, processed and assembled into a commercially different product, i.e. a complete cooling system. The Ld. AR has explained in detail the production process employed for production of the complete cooling system by showing us the pictures of the different components, forming part of the final product, which was placed at Pages 7 to 20 of the Paper Book and the picture of the final product which is available at Page No. 21 of the Paper Book. It is observed that the components though individually identifiable after assembly into a final product, the resultant product is known commercially as a different and distinct product. Further, having gone through the process diagram placed before us at Pages 3-6 of the Paperbook, it is observed that, every component plays a critical role, and without the products acquired and assembled at the UTK unit and each stage of processing at UTK, the final integrated module could not exist. It is also noted that, the final product i.e. the complete engine cooling system is not a radiator or an inter-cooler and therefore in our considered view, the lower authorities were unjustified in holding that the input and output remained the same at the UTK Unit.

14. We also note that, the main components, viz. radiator and inter cooler are functionally different than an integrated engine cooling system

module. Merely because, all these three products in themselves are essential heat exchangers in vehicles, it is observed that they serve different purposes. It was pointed out to us that functionally, a radiator cools the engine to prevent over-heating, and an inter cooler compresses the hot intake air to improve engine performance, whereas an integrated cooling system combines all these functions often using water to air systems for more efficient and compact cooling. According to us therefore, not only the contents of these products were different and distinct but their commercial use and application was also independent from each other and therefore, the activity being carried out at the UTK Unit constitutes 'production' or 'manufacture'.

15. In support of our above observations, we gainfully refer to the decision of the Hon'ble Supreme Court in the case of **CIT vs. N.C. Budharaja & Co. (204 ITR 412)** wherein it was held that the word 'production' is much wider than the word 'manufacture' and the findings relevant to the present issue [Page 423] is as follows:

> "The word 'production' has a wider connotation than the word 'manufacture'. While every manufacture can be characterised as production, every production need not amount to manufacture ....
>
> The word 'production' or 'produce' when used in juxtaposition with the word 'manufacture' takes in bringing into existence new goods by a process which mayor may not amount to manufacture. It also takes in all the by-products, intermediate products and reside rodeos which emerge in the course of manufacture of goods. "

16. The Hon'ble Supreme Court in the case of **India Cine Agencies vs. CIT (308 ITR 98)** had held that, even the activity involving conversion of jumbo rolls of photographic films into small flats and rolls in the desired sizes constitutes 'manufacture'. The relevant findings of the Apex Court having a bearing on the assessee's case is as follows:

> "3. In Black's Law Dictionary (5th Edition), the word "manufacture" has been defined as, "the process or operation of making goods or any material produced by hand, by machinery or by other agency; by the hand, by machinery, or by art. The production of articles for use from raw or prepared materials by giving such materials new forms, qualities, properties or combinations, whether by hand labour or machine". Thus by process of manufacture something is produced and brought into existence which is different from that, out of which it is made in the sense that the thing produced is by itself a commercial commodity capable of being sold or supplied. The material from which the thing or product is manufactured may necessarily lose its identity or may become transformed into the basic or essential properties. (See Dy. CST (Law), Board of Revenue (Taxes) Coca Fibres [1992] Supp. 1 SCC 290).
>
> 4. Manufacture implies a change but every change is not manufacture, yet every change of an article is the result of treatment, labour and manipulation. Naturally, manufacture is the end result of one or more processes through which the original commodities are made to pass. The nature and extent of processing may vary from one class to another. There may be several stages of processing, a different kind of processing at each stage. With each process suffered, the original commodity experiences a change. Whenever a commodity undergoes a change as a result of some operation performed on it or in regard to it, such operation would amount to processing of the commodity. But it is only when the change or a series of changes takes the commodity to the point where commercially it can no longer be regarded as the original commodity but Instead is recognized as a new and distinct article that a manufacture can be said to take place. Process in manufacture or in relation to manufacture implies not only the production but also various stages through which the raw material is subjected to change by different operations. It is the cumulative effect of the various processes to which the raw material is subjected to that the manufactured product emerges. Therefore, each step towards such production would be a process in relation to the manufacture. Where any particular process is so integrally connect with

the ultimate production of goods that but for that process processing of goods would be impossible or commercially inexpedient, that process is one in relation to the manufacture.

…

7. To put it differently, the test to determine whether a particular activity amounts to "manufacture' or not is: Does a new and different good emerge having distinctive name, use and character. The moment there is transformation into a new commodity commercially known as a distinct and separate commodity having its own character, use and name, whether be it the result of one process or several processes 'manufacture' takes place and liability to duty is attracted. Etymologically the word 'manufacture' properly construed would doubtless cover the transformation. It is the transformation of a matter into something else and that something else is a question of degree, whether that something else is a different commercial commodity having its distinct character, use and name and commercially known as such from that point of view, is a question depending upon the facts and circumstances of the case. (See Empire Industries Ltd. v. Union of India [1985] 3 SCC 314).

8. The aforesaid aspects were highlighted in Kores India Ltd. v. CCE [2005] 1 SCC 385 in the background of Central Excise Act, 1944 (in short the Excise Act) and Central Excise Rules, 1944 (in short the 'Excise Rules') and Central Excise Tariff Act, 1985 (in short the 'Tariff Act). The stand of the revenue was that it amounted to "manufacture ", contrary to what has been pleaded in these cases. This Court held that it amounted to manufacture.

9. The matter can be looked at from another angle. In CIT v. Sesa Goa Ltd. [2004] 271 ITR 3311, this Court considered the meaning of word 'production. The issue in that case was whether the extraction and processing of iron ore amounted to manufacture or not in view of the various processes involved and the various processes would involve production within the meaning of section 32A of the Act. It was inter alia observed as under:

" ... There is no dispute that the plant in respect of which the assessee claimed deduction was owned by it and WDS installed after 31-3-1976, in the assessee's industrial undertaking for excavating, mining and processing mineral ore Mineral ore is not excluded by the Eleventh Schedule. The only question is whether such business is one of manufacture or production of ore. The issue had arisen before different High Courts over a period of time. The High Courts have held that the activity amounted to 'production' and answered the issue in question in favour of the assessee. The High Court of Andhra Pradesh did so in CIT v. Singareni Collieries Co. Ltd. [1996] 221 ITR 48, the Calcutta High Court in Khalsa Brothers v. CIT [1996] 217 ITR 185 and

> CIT v. Mercantile Construction Co. [1994] 74 Taxman 41 (Cal.) and the Delhi High Court in CIT v. Univmin Ltd. [1993] 202 ITR 825. The Revenue has not questioned any of these decisions, at least not successfully, and the position of law. therefore, was taken as settled.
>
> The reasoning given by the High Court, in the decisions noted by us earlier, is in our opinion, unimpeachable. This Court had as early as in 1961, in Chrestian Mica Industries Ltd. v. State of Bihar [1961] 12 STC 150, defined the word 'production' Albeit, in connection with the Bihar Sales Tax Act, 1947. The definition was adopted from the meaning ascribed to the word in the Oxford English Dictionary as meaning 'amongst other things that which is produced; a thing that results from any action, process or effort, a product; a product of human activity or effort. From the wide definition of the word 'production', it has to follow that mining activity for the purpose of production of mineral ores would come within the ambit of the word 'production' since ore is 'a thing', which is the result of human activity or effort.…
>
> The word 'production' or 'produce' when used in juxtaposition with the word 'manufacture' takes in bringing into existence new goods by a process which mayor may not amount to manufacture. It also takes in all the by-products, intermediate products and reside rodeos which emerge in the course of manufacture of goods. "

17. Following the above judgements of the Hon'ble Apex Court, it is observed that the jurisdictional Madras High Court in the case of **CIT vs. Gemini Communication (37 taxmann.com 321)** had held that, where the assessee imported the critical networking components and designed and developed it into a radio frequency identification device, such activity would qualify as 'manufacture' and therefore the assessee would be entitled to deduction u/s 80IC of the Act. The relevant findings are as follows:

> "6. Learned Standing Counsel appearing for the Revenue contended that the mere assembling work could not amount to manufacture. Consequently, the assessee was not entitled for deduction under Section 80-IC of the Income Tax Act.

> 7. We do not find that the contention of the Revenue could be accepted by this Court. It may be of interest to note that under Section 2(29BA) of the Income Tax Act, under Finance (No.2) Act of 2009, with effect from 01.04.2009, the definition 'manufacture' was inserted to mean, a change in a non-living physical object or article or thing resulting in transformation of the object or article or thing into a new and distinct object or article or thing having a different name, character and use; or bringing into existence of a new and distinct object or article or thing with a different chemical composition or integral structure. Even though the said amendment would not be of relevance to the assessment year under consideration, namely, 2006-2007, yet, the intention of the Revenue being very clear on the scope of the expression 'manufacture', on the findings of fact that the various materials that had gone into making of the radio frequency identification device having thus undergone a change and that they had lost their original identity, we have no hesitation in confirming the order of the Tribunal. The Revenue has not placed any fresh material either before this Court or before the Authorities below that the manufactured item was no different from the inputs that were used in bringing out a totally different marketable product."

18. We further rely on the decision of the Hon'ble Madras High Court in the case of **CIT vs. Esquire Translam Industries (344 ITR 308)**. In the instant case, the assessee would procure electrical steel which would be assorted and converted as per their grade, size, thickness, etc. into lamination. According to the AO, the raw material and the final product was the same and that there was no change in the product and hence cannot be regarded as manufacture. Following the ratio laid down by the Hon'ble Apex Court in the case of India Cine Agencies (supra), it was held that, what is sufficient to be seen is whether a different commodity having a distinct name emerges from the raw material and since, the laminations was a different commodity to the electrical steel, it was held that the assessee was engaged in 'manufacture'.

19. We also gainfully refer to the decision of the Hon'ble Bombay High Court in the case of **CIT vs. Tata Locomotive & Engineering Co. Ltd (68 ITR 325)** wherein the assessee which was engaged in assembling a chassis out of the complete knocked-down packs imported from abroad, was also held to be 'manufacture'. The relevant findings having a bearing on the present issue is as follows:

> "11. Thus looked at from any point of view and whether one takes into account the wider or narrower meaning of the word "manufacture", it is clear that assembling of automotive bus/truck chassis from imported parts in a knocked down condition would give rise to an article which is totally different from the parts. This is so even though the component parts from which the automotive chassis is made, retain their individual identity in the whole article which is thus manu-factured or produced. To take the simplest illustration, if a child takes strips of metal, bolts, nuts, bars and wheels from out of a "meccano" set and assembling them together makes a wheel-barrow or a chair, we would say that the child has produced a wheel-barrow or a chair if not manufactured it. In the present case, the process is the same but only more sophisticated. The transformation of the components into the finished product is only more marked. Innumerable parts are put together with considerable effort and skill with the aid of specialized tools and machinery run on some form of power; and sometimes modified to fit each other by mechanical process. The bars which go to make up the chassis on which the foot-boards rest are either welded or rivetted together to make the chassis. Ultimately, the completed chassis is fitted with an engine and the whole becomes an automobile, which propels itself. The initial parts or components could not propel themselves. Beyond doubt, therefore, it must be held that the assembling of those parts into the finished product which is an automobile, amounts to the manufacture or production of the automobile.
>
> 12. In the cases of two industrial undertakings where similar assembling of automobiles from parts imported in a knocked down condition was involved, it has been held that assembling amounts to manufacture. The cases are Ashok Motors Ltd. vs. CIT (1961) 41 ITR 397 (Mad) , and CIT vs. Standard Motor Products of India Ltd. (1962) 46 ITR 814 (Mad) , Of course the principal question involved in those cases was whether the mere sale of surplus spare-parts was an activity which entitled the assessee to relief under s. 15C, but in both the cases it was assumed that the assembling of cars is a process of manufacture or production. We have no doubt that upon any shade of

> meaning of the words "manufacture" or "produce" what the company was doing in this industrial undertaking was to "manufacture" and "produce" automobiles without bodies.

20. It is also observed from the standalone accounts of the UTK Unit that the assessee utilizes plant & machinery in this production process. The Revenue has contended that the assessee was using simple tools and machinery and therefore, it was not sufficient to demonstrate that any 'manufacturing activity' was being carried out at the UTK Unit. To this, we find that similar aspect was considered by the Hon'ble Himachal Pradesh High court in the case of **CIT vs. Megha Dadoo (57 taxmann.com 309)** wherein it was held that the manufacture of route markers by undertaking the process of cutting stainless steel pipes of large sizes with electric cutter including painting and welding, would amount to 'manufacture'. Similarly, the Hon'ble Delhi High Court in **CIT vs. Faith Biotech Pvt. Ltd (54 taxmann.com 212)** held that, even though the assessee carried out assembling of air purifiers by using simple tools and testing equipments, it would qualify as 'manufacture' and the assessee shall be entitled to deduction u/s 80IC of the Act. The relevant findings are as follows:

> "4. The finding of the appellate authorities, including the Tribunal is that the product produced and sold by the respondent-assessee was air purification system. For manufacturing the said product, the assessee had purchased parts like base motors, filters, UV lights etc. but the final product produced was entirely different from its constituents or parts. The product manufactured or produced, i.e. the air purifier or air purification system, was completely a new and an entirely different commodity having distinct name,

character and use. The respondent-assessee had even filed photographs before the Assessing Officer to support his contentions on the manufacturing activities undertaken. The respondent-assessee had filed a flow chart of the manufacturing process. The manufacturing unit stood registered with District Industries Centre, Roorkee, Pollution Control Department, Commercial Tax Department, Uttaranchal, etc. 5. The Assessing Officer did not dispute or question the purchases of the parts used for manufacturing as well as the sale consideration received by the respondent-assessee from sale of the air purifiers but did doubt the purchases of the tools and implements required to undertake the manufacturing activities. It is not the case of the Revenue that the air purifiers were not actually manufactured or sold to third parties and there was bogus purchase of parts or transactions for sale of the manufactured goods. The stand of the respondent-assessee was that they had used simple tools and testing equipments like frequency tester, multi meter, VV intensity meter, wires, CFM flow meter, ozone intensity monitor, nuts and bolts, hand drill, screw driver set, plier cutting set, etc. to carry out assembling and manufacturing of the air purifiers.

6. In view of the aforesaid factual findings, we do not think any substantial question of law arises for consideration in the present appeals. The appeals are thus dismissed."

21. It was also brought to our notice that, the assembling process employed by the assessee in production of the integrated engine cooling system module is considered as manufacture under the provisions of the Central Excise Act, 1944 and on production of the same, the assessee pays excise duty. If under the provisions of Central Excise Act, 1944, it is considered to be a manufacturing activity, then it does not appeal to our logic that the same activity does not amount to manufacture under the Income-tax Act, 1961. We find that this particular aspect as to whether the definition of 'manufacture' or 'production' employed for the levy of Central Excise should also be employed for this Act, was examined by the Hon'ble Supreme Court in the case of **ITO vs. Arihant Tiles & Marbles**

Pvt. Ltd (320 ITR 79) and it was answered in favour of the assessee. The relevant findings as noted by us are as under:

> "20. Before concluding, we would like to make one observation. If the contention of the Department is to be accepted, namely that the activity undertaken by the respondents herein is not a manufacture, then, it would have serious revenue consequences. As stated above, each of the respondents is paying excise duty, some of the respondents are job workers and the activity undertaken by them has been recognised by various Government Authorities as manufacture. To say that the activity will not amount to manufacture or production under section 80-IA will have disastrous consequences, particularly in view of the fact that the assessees in all the cases would plead that they were not liable to pay excise duty, sales tax etc. because the activity did not constitute manufacture. Keeping in mind the above factors, we are of the view that in the present cases, the activity undertaken by each of the respondents constitutes manufacture or production and, therefore, they would be entitled to the benefit of section 80-IA of the Income-tax Act, 1961."

22. In so far as the decisions relied upon by the Ld. CIT, DR is concerned, we have gone through the same and find that they were factually distinguishable. It is seen that, on their given facts, the judicial forums noted that the original input and the final output was the same product having same use and function. For instance, in the case of **Acqua Minerals (P.) Ltd vs. DCIT (supra)**, the assessee was packaging drinking water, and it was held that the packaged water served the same purpose as normal water and therefore, there was no commercially distinct product. Similarly, in the case of **Maruti Suzuki India vs. CCE (2015) 318 ELT 353**, the facts were that the assessee was putting ED coating on bumpers and grills and therefore, it was held that the bumpers

and grills, irrespective of the ED coating remained the same and there was no change in the character of the goods. In the present case however, as noted above, the raw materials procured by the UTK Unit, the assembling process carried out and the final product made resulted in a commercially different and distinct product and thus the aforesaid decisions cited by the Revenue were of no relevance.

23. Upon considering the decisions (supra) in light of the facts of the present case, we are of the considered view that the assessee was undertaking 'manufacture' or 'production' of an integrated cooling system module in a scientific manner with use of machinery and the activity resulted in a commercially distinct product having distinct end use. We thus have no hesitation in holding that the assessee was engaged in manufacture or production of an article or thing, in terms of Section 80-IC(2)(a) of the Act.

24. The next issue for our consideration is whether the UTK Unit was a consequence of reconstruction / splitting up of the existing Chennai Unit. The expression *'splitting-up of the business already in existence'* indicates a case where the integrity of a business earlier in existence is broken up and different sections of the activities previously conducted are carried on independently. Splitting-up or reconstruction of business suggests that the new unit and the old unit taken together are essentially doing the

same thing, what the old unit had already been doing. This particular concept was explained by the Hon'ble Delhi High Court in the case of **CIT v. Hindustan General Industries Ltd (137 ITR 851)**. In the decided case, the assessee was manufacturing storage tanks, steel safes etc. at its Qutab Road factory. The assessee had set up a new factory at Nangoli to manufacture iron & steel equipments comprising of railway wagons, storage tanks etc. Some of the assets which were being used at Qutab Road factory were transferred to Nangoli factory. The Hon'ble Court noted that the value of assets transferred were less than twenty percent and therefore the Explanation to Section 15C read with Section 15C(2)(ii) of the Act was not attracted. Accordingly, the two issues before the Hon'ble Court were whether the new unit was formed by *'splitting-up'* or *'reconstruction'* of business already in existence. While examining the issue of *'splitting-up'* of business, the Court noted that both the units were principally manufacturing different products and that there has been no suggestion at any stage that the two factories together were now doing only what the old factory had already been doing. The Court while holding so, categorically held that, even in a case a company sets up or establishes a totally independent and viable industrial unit for carrying on the same business it might be so set up by way of expanding the already

existing business and therefore it cannot be construed as *'splitting-up'* or *'reconstruction'* of business already in existence.

25. The principle which emerges from the above judgment is that, a new company is said to be formed by way of splitting up of business if the existing unit and the new unit taken together are doing the same quantum of business which, otherwise the existing unit was already doing. It is only if the assessee is able to substantiate that the formation of the new unit has resulted in expansion of the already existing business, that it shall not constitute 'splitting up of business'. In the present case, we find that the number of engine cooling system modules manufactured and sold at the Chennai Unit remained unaltered even after the setting up of the UTK Unit. Rather, the facts placed before us shows that the goods supplied by the Chennai Unit other than the units sold at the UTK Unit had increased over the years, whose details, as provided to us, are as follows:

Financial Year	**Supplies made to Ashok Leyland other than AL UTK (Unit Nos.)**
2009-10	16,030
2010-11	15,863
2011-12	26,650
2012-13	23,726
2013-14	21,729
2014-15	31,532

26. It is further observed that the vehicles produced by the UTK Unit (over and above the production at the Chennai Unit) was as follows:

Financial Year	**No. of Vehicles Produced – Ashok Leyland UTK**	**No. of Units sold by Assessee**
2010-11	10,532	8,979
2011-12	29,292	15,926
2012-13	28,832	19,327
2013-14	20,097	11,989
2014-15	24,496	14,885
2015-16	49,910	31,998

27. We thus note that the owned installed capacity of the Chennai Unit and the new installed capacity of the UTK Unit taken together, suggests expansion of business. On these facts therefore, the lower authorities had erred in holding that the UTK Unit had been formed by 'splitting up of business' already in existence.

28. The Ld. AR further explained to us that, the assessee is a component supplier of an automobile behemoth like Ashok Leyland. According to him, when the OEM establishes a new unit at a different location, then, as a necessary corollary, the component manufacturers like the assessee also sets up units near to their customer. The Ld. AR reasoned with us that, since the customer (Ashok Leyland) had expanded its business / capacity, the assessee being their component supplier had evidently undertaken expansion by setting up the UTK Unit, which was

meant to serve the needs of the UTK factory of Ashok Leyland, over and above, the existing capacity and supply requirements of Ashok Leyland at Chennai. There is merit in the Ld. AR's plea that, though the UTK Unit was manufacturing the same item as was being manufactured at the Chennai Unit, it was not a case of 'splitting up' or 'reconstruction' of their business already in existence as alleged by the lower authorities, but 'expansion' of their existing business.

29. The assessee has also brought to our notice that, it was not a case where the UTK Unit was simply passing on the components transferred by the Chennai Unit. The Ld. AR has demonstrated the value additions made to the final product at the UTK Unit which was around 35% to 40% of the total cost. The break-up of the value of components procured from the Chennai unit and the value additions undertaken at the UTK Unit for FY 2011-12 is noted to be as under:

Product code	Value at which Semi finished goods are transferred from Chennai to UTK	Local Component purchase, Other cost etc., - Total cost at UTK	Total Cost of Finished Product	% of value addition @ UTK
06 RIC 001250000UTK	5,680	3030.58	8710.76	35%
06 RIC 001750000UTK	5,833	2895.6	8728.7	33%
06 RIC 001800000UTK	5,680	3030.58	8710.76	35%
06 RIC 001900000UTK	5,833	2926.98	876008	33%
06 RIC 0021100000	5833.1	2985.92	8819.02	34%
06 RIC 0020900000	5833.1	3241.58	9074.68	36%
06 RIC 001820000UTK	5680.18	3030.58	8710.76	35%
06 RIC 0017200000	5833.1	2859.85	8692.95	33%
06 RIC 001810000UTK	5833.1	2917.1	8750.2	33%

30. The Ld. AR similarly, showed us the value additions undertaken across all the years before us. Having gone through the same, it is observed that substantial value addition was being made at the UTK Unit, and therefore, we are of the view that, the AO had erred in observing that there was no increase in the manufacturing capacity as the UTK Unit did not have the necessary facility to manufacture.

31. We find that, much emphasis has been laid by the Revenue on the fact that the UTK Unit was not manufacturing radiators and inter-coolers, which was being procured from the Chennai Unit. According to us, only because, certain critical components were being transferred by a non-eligible unit cannot be the basis to assume that the eligible unit was not engaged in manufacture or was formed by splitting up. There may be varied commercial considerations, due to which, certain core components were being manufactured at one location and that the eligible unit was carrying out the other independent operations, viz. calibration, processing of locally procured components, fabrication, fitting, integration, quality testing and deliver ready products. We find that the Legislature was also aware that such arrangements may be the inter-se units of the assessee and therefore to address the same, necessary safeguards and provisions have been incorporated in Section 80-IA(8)/(10) to ensure that the transfer of such materials/components between non-eligible and eligible

units are at arm's length. It is not the Revenue's case before us that the inter-unit transfers were at low prices and not at arm's length. Rather we find that, such inter-unit transactions were permissible as long as it was being undertaken at arm's length value in terms of Section 80-IA(8)/(10) of the Act. We find that, there is no material or any evidence brought on record by the AO which would show that, the radiators and inter-coolers were not being procured at arm's length price by the UTK Unit. Hence, we are unable to countenance this line of reasoning propounded by the lower authorities.

32. In view of the above and following the decisions (supra), we hold that, the UTK Unit of the assessee was engaged in production or manufacture and therefore satisfied the condition laid down in Section 80IC(2)(a) of the Act and also, the said eligible unit was not formed by splitting up or reconstruction of the business already in existence and thus, the condition precedent in Section 80IC(4)(i) was also met. We thus are of the view that the lower authorities were unjustified in denying the benefit of deduction in respect of the profits derived by the eligible UTK unit u/s 80IC of the Act and direct the AO to allow the same and delete the impugned disallowance. Accordingly, the appeal of the assessee in AY 2011-12 stands allowed.

33. Our decision rendered in the lead case under consideration, being AY 2011-12 in ITA No. 1946/Chny/2025, our decision in the case of ITA No. 1380/Mum/2019, shall apply mutatis mutandis to the assessee`s appeals in ITA Nos.1947-1950/Chny/2025. The AO is accordingly directed to allow the deduction claimed by the assessee u/s 80-IC in AYs 2012-13, 2013-14, 2017-18 & 2018-19 and delete the impugned disallowance(s) made in these respective years.

34. In the result, the appeals of the assessee for AYs 2011-12, 2012-13, 2013-14, 2017-18 & 2018-19 are allowed

Order pronounced on the 18th day of February, 2026, in Chennai.

Sd/-	**Sd/-**
(जगदीश)	**(एबी टी. वर्की)**
(JAGADISH)	**(ABY T. VARKEY)**
लेखा सदस्य**/ACCOUNTANT MEMBER**	न्यायिक सदस्य**/JUDICIAL MEMBER**

चेन्नई/Chennai,
दिनांक/Dated: 18th February, 2026.
TLN

आदेश की प्रतिलिपि अग्रेषित**/Copy to:**
1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकरआयुक्त/CIT, Chennai / Madurai / Salem / Coimbatore.
4. विभागीयप्रतिनिधि/DR
5. गार्डफाईल/GF