

IN THE INCOME TAX APPELLATE TRIBUNAL  
AHMEDABAD "SMC" BENCH

**Before: Shri T.R. Senthil Kumar, Judicial Member And  
Shri Narendra Prasad Sinha, Accountant Member**

**ITA No: 31/Ahd/2026  
Assessment Year: 2019-20**

Innovate Derivatives Pvt. Ltd. 2 <sup>nd</sup> Floor, Devashish, 39, Sardar Patel Nagar, Nr. Hotel Nest, Ellis Bridge, Ahmedabad-380006 Gujarat <b>PAN: AABCI4706M (Appellant)</b>	Vs	The ITO, Ward-2(1)(1), Ahmedabad  <b>(Respondent)</b>
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**Assessee Represented: Shri S.N. Divetia, A.R. &  
Shri Samir Vora, A.R.**

**Revenue Represented: Shri Suresh Chand Meena, Sr.D.R.**

Date of hearing : 18-02-2026

Date of pronouncement : 24-02-2026

**आदेश/ORDER**

**PER: T.R. SENTHIL KUMAR, JUDICIAL MEMBER**

This appeal is filed by the Assessee as against the appellate order dated 18-11-2025 passed by the Commissioner of Income Tax (Appeals), National Faceless Appeal Centre, Delhi, (in short referred to as "CIT(A)"), arising out of the reassessment order passed under section 147 r.w.s. 144B of the Income Tax Act, 1961 (hereinafter referred to as 'the Act') relating to the Assessment Year 2019-20.

2. Brief facts of the case is that the assessee is a company engaged in the business of trading in shares and securities, mutual fund. For the Asst. Year 2019-20, assessee filed its Return of Income on 22-09-2019 declaring loss of Rs.18,34,253/-. The assessment was reopened on the ground that the assessee made financial transaction in respect of the share called M/s. Looks Health Services Ltd. (for short LHSL) which is a penny stock script and assessee claimed a loss of Rs.13,18,400/- on sale of the shares. Therefore a notice u/s. 148A dated 21-03-2023 issued to the assessee seeking for explanation. The assessee replied with the details and documents relating to the transaction of purchase and sale of LHSL shares namely broker ledger, Demat transaction sheet, LHSL register, etc. However not satisfied with the above reply, the A.O. issued notice u/s. 148 on 31-03-2023 on account of loss of Rs.13,18,400/- claimed by the assessee as not genuine and escaped income for the year under consideration.

2.1. During the reassessment proceedings, the assessee was called upon certain details which was complied with. However, the assessing officer completed the reassessment by holding that the sale of LHSL script was identified to provide accommodation entry, therefore disallowed the entire loss of Rs.13,18,400/-.

3. Aggrieved against the reassessment order, the assessee filed an appeal before Ld. CIT(A) who has confirmed the addition made by the assessing officer and dismissed the assessee appeal.

4. Aggrieved against the appellate order, assessee is in appeal before us raising the following Grounds of Appeal:

1.1 The order passed u/s.250 on 18.11.2025 for A.Y.2019-20 by NFAC CIT(A) [for short (CIT(A)] upholding the disallowance of loss of RS. 13,18,400/-as bogus on account of manipulation of share price of scrip Looks Health Services Ltd. [Short "LHSL"] is wholly illegal, unlawful and against the principles of natural justice.

1.2. The Ld. CIT(A) has grievously erred in law and or on facts in not considering fully and properly the submissions made and evidence produced by the appellant with regard to the impugned scrip of LHSL.

1.3. The Ld. CIT(A) has erred in relying solely upon the findings given by FAO and ignoring the documents, evidence etc. uploaded to him, thus there was gross violation of principles of natural justice.

2.1 The Ld.CIT(A) has grievously erred in law and on facts in confirming that the scrip of LHSL was bogus and its share price was manipulated, though the appellant had uploaded all documents/ evidence in support of the genuineness of the transactions in the said scrip. Thus The Ld. CIT(A) has grievously erred in law and on facts in confirming the loss of RS. 13,18,400/-.

2.2 That in the facts and circumstances of the case as well as in law, the Ld.CIT(A) ought not to have upheld that the scrip of LHSL was bogus and its share price was manipulated, though the appellant had uploaded all documents/ evidence in support of the transactions in the said scrip. Thus The Ld. CIT(A) has grievously erred in law and on facts in confirming the loss of RS. 13,18,400/-.

3.1 The Ld. CIT(A) has failed to appreciate that the proceedings of reassessment u/s 148A and notice issued u/s 148 were illegal & barred by limitation of time u/s 149(1) so that the same were illegal and unlawful. The conditions precedent for valid reopening was not satisfied.

It is, therefore, prayed that the disallowance of loss of RS. 13,18,400/-upheld by the CIT(A) may kindly be deleted.

5. At the outset, Ld. Counsel for the assessee stated that he is not pressing Ground No. 3.1 namely initiation of reassessment proceedings. Recording the above statement, Ground No. 3.1 raised by the assessee is hereby dismissed.

5.1. Regarding remaining grounds, Ld. Counsel submitted that the assessee itself is engaged in dealing with Equity Shares, Securities and F&O in Derivatives Segments since April 2008 with Demat account. Entire Share Transactions made during the Financial Year 2018-19 including M/s. Looks Health Services Ltd. were furnished before the assessing officer. The same were acquired through registered Share Broker by Account Payee cheques, Contract notes for Share Purchase and investments are filed before the A.O. The loss on sale of shares of LHSL of Rs.13,18,401/- is claimed in the profit and loss account. Thus the AO is not doubted about the purchase and sale of shares but based on the Investigation Report not accepted the claim of loss as genuine and added as the income of the assessee. In fact the assessee has shown the loss as business loss and not capital loss in its Return of Income. Further the assessee is retaining 5,47,896 shares of LHSL as on 29-03-2019 and the assessee was trading in other shares namely M/s. Adani Power, M/s. Arfin India Ltd., M/s. Chartered Capital and Investment Ltd., M/s. Deep India Ltd., M/s. Greaves Cotton Ltd. and M/s. Monarch Network Ltd. wherein Profits/Loss claimed by the assessee in trading of the above shares. The Ld. Counsel in support of his argument relied upon the following case laws:

Sr. No.	Particulars of case law	Remarks
1	Varun Naginbhai Patel vs DCIT ITA NO.417/AHD/2019 dtd, 08.12.2023	The issue related to the shares of LHSL as penny stock and loss on its sale as bogus (see para-12)

2	Rakesh Ramanlal Shah vs DCIT SCANo.4840 of 2022 dtd. 11-06-2024	The reopening u/s 147 was illegal because there was no live-link or fresh material to connect the transaction in shares of NHSL with information (para-8 onwards)
3	Lalitaben Pravin Shah vs CIT(A) ITA NO.2008/MUM/2023 dtd. 05.04.2024	The AO had not established that assessee was involved in price rigging and did not find fault with the documents furnished to him. The case of CIT vs Jamnadevi Agarwal (20 taxmann.com 529) (Bom)  PCIT vs Ziauddin A Siddique (ITA No.2012 of 2017) dtd. 04.03.2022 Shyam Pawar (54 taxmann.com 108) (Bom). (Refer to para-11 to 14 of the order)
4	PCIT vs Sandipkumar P Patel (457 ITR 386) (Guj)	All relevant documents provided to AO were examined which established genuineness and no evidence of assessee or his broker involved in rigging up the price of the scrip.
5	PCIT"vs Ambalal C Patel [2024] (162 taxmann.com 892) (Guj)	The contract notes etc. were produced and sale of shares could not be said to be bogus on the basis of suspicion or merely because trading in shares of the script was suspended on SEBI.
6	PCIT v Mamta Rajiv kumar Agrawal (2023) 295 Taxman 512 (Guj)]	The AO examined all relevant documents provided by the assessee and there was no evidence of wrong doing implicating assessee or his broker.

7	CIT vs. Smt. Krishna Devi (126 taxmann.com 80) (Delhi)	There is no dispute that the shares of the two companies were purchased online, the payments have been made through banking channel, and the shares were dematerialized and the sales have been routed from demat account and the consideration has been received through banking channels." The decision of Suman Poddar distinguished.
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6. Per contra ld. D.R. appearing for the Revenue strongly supported the order passed by the lower authorities.

7. We have heard rival submissions and considered the materials available on record including the Paper Book and case laws compilation filed by the assessee. It is seen from the reassessment proceeding, the A.O. vide notice dated 21-03-2023 called for various information relating to the transaction of LHSL shares. The assessee vide reply dated 28-03-2023 uploaded/furnished as follows:

- (a) Transaction & holding statement with Innovative Securities Pvt Ltd with closing balance on 31.3.19
- (b) Ledger of NSE derivative for FY 2018-19
- (c) Ledger a/c of NSE capital Market for FY 2018-19
- (d) Ledger a/c of BSE capital Market for FY 2018-19
- (e) Stock statement of Looks Health Services Ltd.
- (f) Holding statement of securities on 29.04.08
- (g) Scrip-wise trade summery

7.1. However not satisfied with the above reply, the A.O. disallowed the loss of Rs.13,18,401/-. The Revenue is not disputed

the share trading activities of the assessee company and the purchase of shares also not doubted by the Revenue which were demated and done through registered Share Broker by Account Payee cheques and banking transaction. However, based on the information from the Investigation Wing the loss claimed in sale of LHSL shares were denied to the assessee. Thus the revenue could not establish any technical fault in the purchase and sale of LHSL shares.

7.2. On identical transactions of LHSL shares, Co-ordinate Bench of this Tribunal in the case of Rachana Sanjay Shah Vs. PCIT in ITA No. 626/Ahd/2024 dated 06-11-2024 [by the very same combination of this Bench] passed the following order:

"... 7.1 On careful consideration of the above documents, the AO accepted the returned income declared by the assessee, thereby not making any addition on sale of "LHSL" shares. We find that the co-ordinate Bench of this Tribunal in the case of Kavita Jayesh kumar (supra) has quashed the revision order passed by the Id. Pr.CIT by observing as follows:

*"9.10....The Pr. CIT initiated 263 proceedings on the ground that the AO has passed order in a hurried manner without making proper enquiring and verification. It is not the case of the Pr. CIT that the Ld. AO did not apply his mind to the issue on hand or he had omitted to make enquiries altogether or had taken a view which was not legally plausible in the instant facts. In the instant set of facts, the Ld. AO had made detailed enquiries vide notice dated 11-12-2018 and Ld. AO vide reply dated 12-12-2018 submitted that the transaction of purchase and sale of shares were duly supported by contract notes, demat account and payments were made through banking channel, assessee produced details of share-holders, details of revenue earned by the company over the years and gave a detailed rationale for investment in shares of M/s Looks Health Care services Ltd. After consideration of material placed on record, Ld. AO allowed claim of exemption on sale of shares of M/s Looks Health Care services Ltd. u/s 10(38) of the Act. Now on the issue that the Ld. AO passed a cryptic order and did not discuss in detail*

*regarding assessee's claim of the allowability of exemption u/s 10(38) of the Act on sale of shares of M/s Looks Health Care services Ltd, in our view it is a well settled position of law that if from the assessment records, it is evident that the Id. AO has made due enquiries in response to which assessee has filed detailed submissions, then even if the assessment order does not discuss all aspects in detail with regards to claim of the assessee, it cannot be held that the order is erroneous and prejudicial to the interests of the Revenue The above proposition has been upheld in the case of CIT v. Reliance Communication 69 taxmann.com 109 (Bombay), Smt. Anupama Bharat Gupta 1. PO in ITA 1685/Ahd/2018, Goyal Private Family Specific Trust (1988) 171 ITR 698, CIT 12 Mahendra Kumar Bansal (2008) 297 ITR 99 (All) (para 10) etc. We thus find no error in the order of Ld. AO so as to justify initiation of 263 proceedings by the Ld Pr. CIT. The Ground of appeal raised by the assessee is thus allowed.*

8. Similarly, in the case of Varun Nagainbhai Patel (supra), the Co-ordinate Bench deleted the addition made by the AO by observing as follows:

*"12. We have heard rival contentions of both the parties and perused the materials available on record. In the case on hand, the short-term capital loss claimed by the assessee on sale of shares of M/s Looks Health Services Ltd was held as bogus by the AO and subsequently by the learned CIT(A) for the reason elaborated in the previous paragraph. The facts are without ambiguity. The purchases and sales of M/s Looks Health Services Ltd were carried out on the platform of Bombay Stock exchange. However, the lower authority treated the transaction carried out by the assessee as sham transaction. The entire thrust of the revenue authority is based on certain general facts like the company M/s Looks Health Services Ltd was not finically viable in which general public should show interest. The price of the scrip was unusually skyrocketed without any financial or economic basis and unusually decreased. The script in that period were traded in bulk and most people who indulged in bulk trading were from Ahmedabad city only. Based on these general observations, the AO concluded that the price of shares M/s Looks Health Services Ltd rigged up to provide bogus LTCG/STCL to beneficiaries. The AO in its order has stated nowhere that any enquiry or investigation was carried out with any concerned authority or income tax department regarding rigging up of the price of M/s Looks Health Services Ltd or by the assessee's broker. The AO predominantly proceeded to hold the price of the shares was rigged up merely on analysis of trade data of impugned scrip and financial strength of the company.*

*Thus, the AO based on sweeping observation held that the assessee entered a prearranged transaction to set off the long-term capital gain earned by him during the year. As such, there is no information or finding based on corroborative material available with the AO that the price of impugned script was rigged up or the assessee along with his broker have rigged up the price or prearranged the transaction. The AO and learned CIT(A) also emphasizes the principles of surrounding circumstantial evidence. In this regard we are of the considered opinion the principle of surrounding circumstantial evidence is also not as strong to draw adverse inference against the assessee especially considering the fact that the transaction of purchases and sales were made on the BSE platform where seller and buyer do not know each other, and transaction entered on the basis of current market scenario, Further it is pertinent to mentioned that the assessee during the year under consideration has earned LTCG of Rs. 2,46,90,000/- whereas claimed setoff of STCL of Rs. 1,78,23,848/- only, had the assessee prearranged the transaction to set off the gain then he might have setoff entire capital gain. It is also pertinent to mention that the assessee during the year entered into share trading on short term basis in 48 different scripts and he incurred losses as well as earned profit which were not doubted. At this juncture, we find it necessary to refer to the judgment of the Hon'ble Delhi High court in the case of PCIT us. Krishna Devi reported 126 taxmann.com 80. In the case of Krishna Deus (supra) the AO predominantly based on financial and trade analysis of scrip held that modus operandi is similar to penny stock and disallowed the LTCG claimed by the assessee on the basis of modus operandi, parameters of human probability etc. The Hon'ble Bench of Delhi High court decided the issue in favour of the assessee. The relevant observation of the Hon'ble High Court reads as under:*

*11. On a perusal of the record, it is easily discernible that in the instant case, the AO had proceeded predominantly on the basis of the analysis of the financials of M/s Gold Line International Finvest Limited. His conclusion and findings against the Respondent are chiefly on the strength of the astounding 4849.2% jump in share prices of the aforesaid company within a span of two years, which is not supported by the financials. On an analysis of the data obtained from the websites, the AO observes that the quantum leap in the share price is not justified; the trade pattern of the aforesaid company did not move along with the sensex, and the financials of the company did not show any reason for the extraordinary performance of its stock. We have nothing adverse to*

*comment on the above analysis, but are concerned with the axiomatic conclusion drawn by the AO that the Respondent had entered into an agreement to convert unaccounted money by claiming fictitious LTCG, which is exempt under section 10(38), in a preplanned manner to evade taxes. The AO extensively relied upon the search and survey operations conducted by the Investigation Wing of the Income-tax Department in Kolkata, Delhi, Mumbai and Ahmedabad on penny stocks, which sets out the modus operandi adopted in the business of providing entries of bogus LTCG. However, the reliance placed on the report, without further corroboration on the basis of cogent material, does not justify his conclusion that the transaction is bogus, sham and nothing other than a racket of accommodation entries. We do notice that the AO made an attempt to delve into the question of infusion of Respondent's unaccounted money, but he did not dig deeper. Notices issued under sections 133(6)/131 of the Act were issued to M/s Gold Line International Finvest Limited, but nothing emerged from this effort. The payment for the shares in question was made Varun Naginbhai Patel Vs. DCIT by Sh. Salasar Trading Company. Notice was issued to this entity as well, but when the notices were returned unserved, the AO did not take the matter any further. He thereafter simply proceeded on the basis of the financials of the company to come to the conclusion that the transactions were accommodation entries, and thus, fictitious. The conclusion drawn by the AO, that there was an agreement to convert unaccounted money by taking fictitious LTCG in a pre-planned manner, is therefore entirely unsupported by any material on record. This finding is thus purely an assumption based on conjecture made by the AO. This flawed approach forms the reason for the learned ITAT to interfere with the findings of the lower tax authorities. The learned ITAT after considering the entire conspectus of case and the evidence brought on record, held that the Respondent had successfully discharged the initial onus cast upon it under the provisions of Section 68 of the Act. It is recorded that There is no dispute that the shares of the two companies were purchased online, the payments have been made through banking channel, and the shares were dematerialized and the sales have been routed from demat account and the consideration has been received through banking channels." The above noted factors, including the deficient enquiry conducted by the AO and the lack of any independent source or evidence to show*

*that there was an agreement between the Respondent and any other party, prevailed upon the ITAT to take a different view. Before us, Mr. Hossain has not been able to point out any evidence whatsoever to allege that money changed hands between the Respondent and the broker or any other person, or further that some person provided the entry to convert unaccounted money for getting benefit of LTCCG, as alleged. In the absence of any such material that could support the case put forth by the Appellant, the additions cannot be sustained*

*13. Thus, in view of the above discussion and respectfully following the judgment of Hon'ble Delhi High Court in identical facts and circumstances in case of PCIT vs Krishna Devi, we hereby set-aside the finding of the learned CIT(A) and direct the AO to delete the addition made by him. Hence, the ground of appeal of the assessee is hereby allowed."*

9. Respectfully following the above judicial pronouncements, we have no hesitation in quashing the revision order passed by the Id. Pr.CIT, and therefore, we allow the grounds of appeal raised by the assessee."
8. Respectfully following the above judicial precedents, we have no hesitation in deleting the addition made by the A.O. Thus the ground nos. 1.1 to 2.2 raised by the assessee are hereby allowed.
9. In the result, **the appeal filed by the Assessee is partly allowed.**

Order pronounced in the open court on 24-02-2026

**Sd/-**  
**(NARENDRA PRASAD SINHA)**  
**ACCOUNTANT MEMBER** *True Copy*

**Sd/-**  
**(T.R. SENTHIL KUMAR)**  
**JUDICIAL MEMBER**

**Ahmedabad :**

**Dated 24/02/2026**

आदेश की प्रतिलिपि अग्रेषित / Copy of Order Forwarded to:-

1. Assessee
2. Revenue

3. Concerned CIT
4. CIT (A)
5. DR, ITAT, Ahmedabad
6. Guard file.

By order/आदेश से,

उप/सहायक पंजीकार  
आयकर अपीलीय अधिकरण,  
अहमदाबाद