

**IN THE INCOME TAX APPELLATE TRIBUNAL
JODHPUR BENCH, JODHPUR**

**BEFORE DR. MITHA LAL MEENA, HON'BLE ACCOUNTANT MEMBER
AND SHRI SUDHIR PAREEK, HON'BLE JUDICIAL MEMBER**

**ITA No. 670/Jodh/2025
(Assessment Year – 2014-15)**

Navkar Woollens Private Ltd. Rani Bazar, Bikaner, H.O. Bikaner, Bikaner - 334001 PAN No. AABCN 9287 G		Assistant Commissioner of Income Tax, Circle – 3 Bikaner
Assessee by	Shri Rajendra Jain, Advocate and Smt. Raksha Birla, CA (Physical)	
Revenue by	Smt. Runi Pal, CIT-DR and Shri Lalit Kumar Bishnoi, Addl. CIT-DR (Virtual)	
Date of Hearing	29.01.2026.	
Date of Pronouncement	26.02.2026.	

ORDER

DR. MITHA LAL MEENA, A.M.:

This appeal is filed by assessee against the order of National Faceless Appeal Centre Delhi [hereinafter referred to as NFAC/CIT(A)] dated 30.07.2025 with respect to Assessment Year 2014-15 challenging therein sustaining the addition of Rs. 2,34,04,480/- on account of difference between the Fair Market Value and the issue price of the equity shares by questioning the method of valuation.

2. Grounds of Appeal are as under:

1. The Ld. AO was wrong in law as well as in facts in making an addition of Rs. 2,34,04,480/- on account of alleged difference between the FMV and issue price of equity shares.
 2. The method of valuation adopted by AO was wrong as per rule 11UA
 3. No affordable or reasonable opportunity was given to assessee before passing the order u/s 144 of the Income Tax Act.
 4. The assessee reserves the right to add, alter or amend any ground of appeal as and when the need arises.
3. At the outset the Ld. AR for the Assessee has submitted that the appellant assessee case was reopened under Section 147 based on information that 51392 shares were issued at the premium of Rs. 120 each by over value assessed particularly in violation of Rule 11UA of Income Tax Rules. The AO alleged that while computing the fair market value (FMV) of shares the appellant took the market value of land at Rs. 2,45,50,000/- under the book value of Rs. 66,87,650/- as recorded in the balance sheet as on 31.03.2013. Thus, the AO observed that there was an over statement of FMV by Rs. 44 per share, resulting in income escapement of Rs. 2,34,04,480/- which was treated by the Assessing Officer as income from other sources being not satisfied with the replies furnished by the Assessee during reassessment proceedings.
4. The Assessee being aggrieved with the assessment order preferred an appeal before the learned CIT(A) who has confirmed the finding of the AO by

observing that the appellant's claim that it has used a valuation method substantiated to the AO's satisfaction was found unacceptable being inconsistent with Rule 11UA.

5. The learned CIT(A) has rejected the contention of the appellant assessee by observing that the valuation report submitted by the appellant, which was based on discounted cash flow (DCF) method and prepared by a Chartered Accountant is legally untenable. Rule 11UA(c)(b) mandates that the DSF valuation must be certified by a Category-I merchant banker and not by a Chartered Accountant. He has further observed that the appellant's reliance on the case of CIT Vs. VVA Hotels Private Ltd. (2020) is misplaced as that case involves a merchant banker certified valuation which is absent here. The Id. CIT(A) has further observed that appellant had advanced arguments that company incurred business losses on account of depreciation on solar plant is irrelevant. Section 56(2)(viib) specifically deals with the premium received over FMV on the issuance of shares and treats such excess as taxable income regardless of the company's overall profitability or losses. The learned CIT (A) has held that appellant has not succeeded in discharging its burden to proof to justify the DCF valuation Method adopted.

6. The Ld. AR for the Assessee submitted that AO has been wrong in computing the fair market value of the shares by taking its book value of Rs. 66,87,650/- as per balance sheet as on 31.03.2013 instead of the fair market value as per Rule 11UA(c)(b) of the Income Tax Act, 1961 taken by the Assessee at Rs. 2,45,50,000/-. Such an observation of the AO is in contravention to what is defined under Rule 11UA for determining FMV of shares. The AR contended that by increasing the value of its assets, resultantly the FMV of shares was increased by Rs. 44 per share. The AR referred to the method prescribed under Rule 11UA (D) and also the Section which described the manner of computation of fair market value of such shares. As per method prescribed under Rule 11UA (2) that Book Value Method (NAV) and discounted cash flow method (allowed to a merchant banker only) or any other value as may be substantiated by the company to the satisfaction of the Assessing Officer. Thus, the learned AR has argued that there is an option to the Assessee for computation of fair market value of shares to choose any one method as mentioned above.

7. In the present case, Assessee has chosen the method of valuation i.e. the value substantiated by the Assessee to the satisfaction of the AO which was taken by the Assessee as per computation fair market value of the shares

to Rs. 2,45,50,000/-. In support the AR placed reliance on the following judgments:-

(i) CIT vs. VVA Hotels Private Ltd. Appeal No. 670 of 2019 dated 21.09.2020 (Madras High Court).

(ii) Idana Pet Industries Vs. ITO in ITA No. 329 and 330/Jodh/2023 dated 19.12.2023.

8. Ld. CIT DR on the other hand relied on the order of the CIT (A).

9. We have heard the rival submissions and perused the material on record and case laws cited before us. Admittedly the Assessee Company has computed the fair market value of the shares each by over valuing assets, alleged land, in compliance to Rule 11UA of the Income Tax Rules. The AO has alleged that the computation of fair market value of the shares has been taken by the appellant at the market value of land at Rs. 2,45,50,000/- instead of book value of Rs. 66,87,650/- as recorded in the balance sheet on 31.03.2013 and it has been held as over estimate of FMV by Rs. 44 per share and consequently the income amounting to Rs. 2,34,04,480/- was assessed as income from other sources. The Ld. CIT (A) has merely confirmed the finding of the AO without addressing the contentions raised by the appellant even though the assessee's reply is produced in the impugned order. It is noted that

learned CIT (A) has mentioned that the reliance of the learned AR on the judgment delivered in the case of CIT Vs. VVA Hotels Pvt. Ltd. was misplaced without distinguishing the fact that how it was misplaced.

10. We find that the appellant had valued its land at market/ stamp value of Rs. 2,45,50,000/- instead of book value of Rs. 66,87,650/- as mentioned in the balance sheet dated 31.03.2013. The Ld. AR has placed reliance on Clause D of the Formula in Rule 11UA to justify using the higher stamp duty value/fair market value of the land by substantiating to the satisfaction of the AO.

11. It is noted that the value of property taken by the assessee at Rs. 2,45,50,000/- represents the stamp duty value and that property as per the prevailing DLC rates. Further the difference of market value of the land as at the IGC Khara and book value of land was considered for arriving at the fair market value of the shares. Thus, in our view, the assessee's approach has been very conservative in determining the fair market value of the shares and the shares so issued by the assessee are not by any stretch or imagination treated as an excess of the fair market value of the shares and share premium was thus found to be in order.

12. In the present case, the fair market value adopted by the assessee company is also supported by the certificate issued un Rule 11UA of the

Income Tax Act, therefore, no interference ought to be called for u/s 56(2)(5b) of the Act as the Section calls for acceptance of valuation done by CA.

13. In the case of CIT Vs. VVA Hotels Pvt. Ltd. (supra), the Hon'ble Madras High Court has observed that the AO was not justified in adopting NAV method and making addition u/s 56(2)(viib) when the assessee company has used the privilege of choosing the DCF method for arriving at the value of shares instead of NAV method. In conclusion, the Hon'ble Court has observed that AO was not justified in adopting NAV method and making addition u/s 56(2)(viib) when the assessee submitted that value of shares were done by adopting a discounted free cash flow (DSF Method) as per the report of CA.

14. In another case of Idana Pet Industries Pvt. Ltd. Vs. ITO (supra), the coordinated Jodhpur Bench has upheld DCF method of valuation adopted by assessee by observing that the assessee has taken the DCF method for valuation of shares and explained to the satisfaction of Assessing Officer under Rule 11UA of Income Tax Rules. Further going through the relevant Sections and Rules, Tribunal hold that the matter of valuation to value equity shares has been completely left to the discretion of the assessee and that it was his option whether to choose NAV method, Book Value Method under Clause A or to choose DCF method under Clause B and the Ld. Assessing Officer cannot

adopt the method of his own choice. The Coordinate Bench relying on the order of the Tribunal Mumbai Bench in the case of Crown Chemicals Pvt. Ltd. [TS-1017-ITAT-2022 (Mumbai)] dated 23.12.2022, Delhi Bench in the case of DCIT Vs. Hometrail Buildtech Pvt. Ltd. (2023) 155 taxmann.com 578 (Del.)(Trib.) and Jaipur Tribunal in the case of Nabh Multitrade Pvt. Ltd. Vs. ITO, ITA No. 269/Jpr/2018 dated 09.10.2020 held that the value of shares adopted by the assessee at Rs. 158 per share to the allotted shares at Rs. 100 which is much less than the NAV is not contravening of Section 56(2) of the Act. Accordingly, the Tribunal has held that addition was not in contravention of the Provisions of Section 56(2) of the Act and held to be justified.

15. Meaning thereby that the option is given to the assessee and that once the assessee has exercised an option and substantiated to the satisfaction of the AO, the AO is bound to accept the same unless disproved the claim by bringing the cogent material evidence on record, to establish that the method of valuation adopted by the assessee, was perverse to the facts on record, and not found satisfactory in the given factual matrix of the case.

16. Considering the factual matrix and following judicial pronouncement cited supra, we hold that the decision passed by Ld. CIT(A) suffers from

infirmity and perversity to the facts on record on the issue method of valuation.

17. We, therefore, set aside the impugned order and as such, delete the addition of Rs. 2,34,04,480/-.

18. In the result, the appeal of the assessee is allowed.

Order pronounced in the open court on 26/02/2026.

Sd/-

**(SUDHIR PAREEK)
JUDICIAL MEMBER**

Dated : 26/02/2026.

Nimisha Sr. PS

Sd/-

**(DR. MITHA LAL MEENA)
ACCOUNTANT MEMBER**

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Copies to :

- (1) The appellant.
- (2) The respondent.
- (3) CIT
- (4) CIT(A)
- (5) Departmental Representative
- (6) Guard File

BY ORDER,