

**IN THE INCOME TAX APPELLATE TRIBUNAL  
“B” BENCH, DELHI**

**BEFORE SHRI ANUBHAV SHARMA, JUDICIAL MEMBER &  
SHRI MANISH AGARWAL, ACCOUNTANT MEMBER**

**ITA No.5705/Del/2024  
(Assessment Year: 2021-22)**

DCIT, Circle-19(1) Room No. 221, Central Revenue Building, I.P. Estate, Delhi – 110002	Vs.	M/s PEC Limited Block-F, 3 <sup>rd</sup> Floor, Flatted Factory Complex, Jhandewalan K, Marker, A.K. Marker, S.O. Central Delhi - 110055
स्थायीलेखासं./जीआइआरसं./PAN/GIR No: AA ACT0101G		
Appellant	..	Respondent

Appellant by :	Sh. Sanjay Aggarwal, CA
Respondent by :	Ms. PoojaSwaroop, CIT, DR

Date of Hearing	27.01.2026
Date of Pronouncement	08.04.2026

**ORDER**

**PER ANUBHAV SHARMA, JM:**

This appeal preferred by the revenue against the order dated 10.10.2024 of Ld. National Faceless Appeal Centre (NFAC) (hereinafter referred to as

the First Appellate Authority or ‘the ld. FAA’ for short) in DIN & Order No : ITBA/NFAC/S/250/2024-25/1069581841(1) arising out of the assessment order dated 20.12.2022 u/s 143(3) r.w.s 144B of the Income Tax Act, 1961 (hereinafter referred to as ‘the Act’) passed by NaFAC Delhi for AY: 2021-22.

2. The appellant has filed return of income for the AY 2021-22 declaring total loss of Rs.127,45,08,328/-. The assessee is a Public Sector Undertaking which has been engaged in the business of imports and exports of goods and worked also as a channelizing for Government of India for various products. The case was selected for complete scrutiny based on “Very Low PBDIT ratio in specific business code and turnover range where deficiency is reported in audit report. The company has claimed that it has stopped its business activity since September, 2019. As per decision of the Government of India, the corporation is to be closed since it has been incurring huge losses. The closure is under progress subject to many regulatory compliances and approvals. The issues arise from additions and disallowances aggregating to Rs.131,88,49,576/- made on the ground that there was no revenue from operations and therefore the same is not allowable as per provisions of the

Act. Thus the income has been assessed at Rs. 4,43,53,895/- instead of returned loss of Rs. 127,45,08,308/-. These expenses are as under:-

Sl. No.	Nature of Expenses	Amount
1	Interest Expenses	114,34,27,279
2	Depreciation	11,40,193
3	Compensation to Employees	13,78,17,829
4	Provision for bad and doubtful debts	2,05,50,348
5	Other Expenses	1,59,13,927
	Total	131,88,49,576

3. On hearing both sides we find that ld. DR merely relied the impugned findings of assessing officer, without substantially adding anything further.

4. The case of assessee is that the assessee is a 100% owned Government of India Undertaking under the Ministry of Commerce and Industry. The company stopped its business activities since September, 2019 as per directions of the Ministry of Commerce since the company has been earmarked for closure. The company has earned an Interest Income of Rs. 2.61 crore and Other Nonoperating Income of Rs. 0.15 crore. The company has been functioning to settle its Receivables and Borrowings which were

taken in the past. The company is functioning with minimum staff and carrying on its activities to give effect to the directions of the Ministry to close the corporation.

5. The learned Assessing Officer has disallowed the Interest Expense of Rs.114,34,27,279/- being interest payable to banks on borrowings. The case of assessee is that Interest Expenses is an integral part of assessee's business and incurred for financing of its business only. We find the same is allowed by Id. CIT(A) with following findings;

*“8.0 Third ground of the appellant relates to disallowing the interest expenses of Rs. 114,34,27,279/- being interest payable to banks on borrowings taken in the past by the appellant. In this respect submission of the appellant is duly considered. Ld AO has disallowed this expense on the ground that there is no business activity of the appellant. I find that the appellant had taken these loans in earlier years from various banks as under:*

Sr. No.	Bank Name	Amount of Interest	Interest Collected by Bank cash	Total interest
1.	PNB	68,04,93,820.00		68,04,93,820.00
2.	UNITED BANK	(64,83,861.00)	3,56,452.00	(61,27,409.00)
3.	VIJAYA BANK	942,25,48,683.17)		(42,25,48,683.17)
4.	SYNDICATE BANK	89,16,09,552.00		89,16,09,552.00
				1,14,34,27,279.83

*In this regard, I am of the view that the interest expenses are an integral part of assessee's business and was incurred for financing of its business only. Further, it is seen that the company has stopped its business activity since September 2019 and is in the process of closure as per decision of the Government of India.*

*It is also noted that the banks have not given up their rights to the interest or principal amounts. The appellant is also in the process of settling its dues. Therefore, the payment of interest remains a liability of the appellant and is required to be debited in the profit and loss account. Under the circumstances, the appellant has rightly claimed this amount as business expense. Accordingly, I direct the Ld. AO to delete the addition made. Ground of the appellant is allowed.”*

6. Though Id. DR relies the reasoning of AO, however it comes up that impugned interest denotes interest expenses on borrowings from Banks taken in the past years in connection with the business of the corporation. The assessee is a Public Sector Undertaking which has been engaged in the business of imports and exports of goods and worked also as a channelizing for Government of India for various products. In the past assessments, there has been no addition/disallowance out of Interest Expenses on Borrowings from Banks. The assessee is in the process of settling its dues. The banks have not given up their rights to the interest or principal amounts. The Interest Expenses having been incurred on bank borrowings taken for business of the company is an allowable expense and therefore rightly allowed by Id. CIT(A). The ground no. (ii) is rejected.

7. The learned Assessing Officer has made a disallowance of Rs. 11,40,193/- being depreciation as per Income Tax Act claimed by the corporation and same was deleted by ld. CIT(A) with following findings;

*“9.0 Fourth ground of the appellant relates to the disallowance of depreciation as per books of Rs.11,40,193/- the claim of the appellant is that the depreciation of Rs 11,40,193 was already disallowed and added back by the assessee in its computation. Therefore, adding it again has resulted in double addition of this amount. I have gone through the computation of the appellant and find that this amount was disallowed by the appellant in the computation. Therefore, it should not be added again. Accordingly, I direct the Ld AO to delete this addition. Ground of the appellant is allowed.”*

8. Ld. DR was unable to controvert the factual finding that depreciation was disallowed by the assessee in computation. Thus no further disallowance was warranted. The ground no. (iii) has no substance.

9. The learned Assessing Officer has made disallowance of Rs.13,78,17,829/- being Compensation to Employees. Same is deleted by ld. CIT(A) by following finding;

*“10.0 Fifth ground of the appellant relates to disallowance of the amount of compensation to employees of Rs. 13,78,17,829/-. In this connection it is stated by the appellant that the company has ordered to be closed by the Ministry of Commerce, the process of closure cannot be completed without any employee being*

*employed. The corporation has been working with minimum employees to give effect to the directive of the Ministry. The corporation has offered VRS to the employees and this expenditure includes VRS expense of Rs. 3.32 crore and various benefits paid to employees as per laws. In the previous year, the expenses were Rs. 12.64 crore without any VRS expense. Thus, the expense in the year under reference has reduced. Such expense is necessary to manage the affairs of the corporation and comply with various legal requirements till the corporation is fully closed.*

*Having considered the submission of the appellant, I find that the appellant is working with minimum number of employees towards the closure of the company. Further, this amount also includes Rs 3.32 crores towards VRS expenses. I agree with the contention of the appellant that some employees will be required to see that the closure of the company is in accordance with laws of the land. Accordingly, Ld AO is directed to delete the addition made. Ground of the appellant is allowed.”*

10. As already mentioned that the company has ordered to be closed by the Ministry of Commerce, the process of closure cannot be completed without any employee being employed. The corporation has been working with minimum employees to give effect to the directive of the Ministry. The corporation has offered VRS to the employees and this expenditure includes VRS expense of Rs. 3.32 crore and also various benefits paid to employees as per laws. In the previous year, the expenses were Rs. 12.64 crore without any VRS expense. Thus the expense in the year under reference has reduced.

Such expense is necessary to manage the affairs of the corporation and comply with various legal requirements till the corporation is fully closed. The conclusion of Id. CIT(A) needs no interference. The ground no. (iv) is rejected.

11. The learned Assessing Officer has made addition of Provision for bad and doubtful debts of Rs. 2,05,50,348/-. The same was deleted by Id. CIT(A) with following findings;

*“11.0 Sixth ground of the appellant relates to addition of Provision for bad and doubtful debts of Rs. ,05,50,348/- which has already been disallowed and added back by the assessee in its computation and thereby resulting in double addition/ disallowance thereof. I find that this amount of Rs.2,05,50,348/- towards Provision for bad and doubtful debts is already added by the appellant in the computation of total income. Therefore, adding the same amount again is not justified. Accordingly, Ld AO is directed to delete the addition made. Ground of the appellant is allowed.”*

12. As a matter of fact, the said amount has already been added back by the corporation in its computation for Rs. 4,14,22,685/- and therefore the addition made by the learned assessing officer amounts to double disallowance. In Note-31 to the accounts it is mentioned that there is net exceptional item for Rs. 2.05 crore whereas the corporation has made

disallowance for Rs. 4.14 crore. Thus conclusion of ld. CIT(A) deserves no interference. The ground no. (v) is rejected.

13. The learned Assessing Officer has made a disallowance of Rs. 1,59,13,927/- being Other Expenses. The ld. CIT(A) deleted the same with following findings;

*“12.0 Seventh ground of the appellant relates to disallowing of other Expenses of Rs.1,59,13,927/-. The appellant has submitted that there is no item individually or aggregating to Rs.1,59,13,927/- in the details of “Other Expenses” which is contained in Note-30 to the accounts. I find that Ld AO has also not elaborated as to how this expense amount has been arrived. As this amount is not appearing in the other expenses, I direct the Ld AO to delete this addition. Ground of the appellant is allowed.”*

14. Ld. DR could not dispute the factual findings that there is no item individually or aggregating to Rs. 1,59,13,927/- in the details of “Other Expenses” which is contained in Note-30 to the accounts. Other expenses amount to Rs. 2.18 crores. In view of the fact that the disallowance has been made for a non-existing expenses, the same was rightly deleted. Ground no. (vi) is rejected.

15. As a consequence of aforesaid discussion the ground no. 1 deserves to be rejected too and other grounds are consequential. The appeal of department has no merit. Same is dismissed.

Order pronounced in the open court on 08.04.2026

Sd/-  
(Manish Agarwal)  
ACCOUNTANT MEMBER

Sd/-  
(Anubhav Sharma)  
JUDICIAL MEMBER

Dated 08.04.2026

Rohit, Sr. PS

Copy forwarded to:

1. Appellant
2. Respondent
3. CIT
4. CIT(Appeals)
5. DR: ITAT

ASSISTANT REGISTRAR  
ITAT NEW DELHI