Dcit Circle-3(1)(1) Ahmedabad, ... vs Reckitt Benckiser Healthcare India ... on 14 May, 2026

IN THE INCOME TAX APPELLATE TRIBUNAL
"D" BENCH, AHMEDABAD
BEFORE DR. BRR KUMAR, VICE PRESIDENT &
SHRI SIDDHARTHA NAUTIYAL, JUDICIAL MEMBER
I.T.A. Nos.1845 to 1848/Ahd/2025
(Assessment Years: 2014-15 to 2017-18)

Reckitt Benckiser Healthcare India Pvt. Ltd., 405 B, 6 & 7 Floor (Tower-G) DLF Cyber Park, Udyog Vihar Phase III, Sector 20, Gurgaon, Haryana-122016 [PAN No.AAACP9268J]	Vs.	Deputy Commissioner of Income Tax, Circle-3(1)(1), Ahmedabad
(Appellant)	..	(Respondent)

I.T.A. Nos.1867 to 1870/Ahd/2025
(Assessment Years: 2014-15 to 2017-18)

Deputy Commissioner of Income Tax, Circle-3(1)(1), Ahmedabad	Vs.	Reckitt Benckiser Healthcare India Pvt. Ltd., 405 B, 6 t h & 7 t h Floor (Tower-G) DLF Cyber Park, Udyog Vihar Phase III, Sector 20, Gurgaon, Haryana-122016 [PAN No.AAACP9268J]
(Appellant)	..	(Respondent)

Appellant by : Shri Dhinal Shah & Shri Rohit Pansari, ARs
Respondent by: Shri Sher Singh, CIT-DR & Shri Rameshwar Prasad Meena, Sr. DR
Date of Hearing 06.05.2026
Date of Pronouncement 14.05.2026

ORDER

PER SIDDHARTHA NAUTIYAL - JUDICIAL MEMBER:

The cross appeals have been filed by the Assessee and the Revenue against the order passed by the Ld. Commissioner of Income Tax (Appeals)- 13, (in short "Ld. CIT(A)"), Ahmedabad vide orders dated 10.07.2025, 11.07.2025 & 15.07.2025 passed for A.Ys. 2014-15 to 2017-18. Since ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 2-

common facts and issues for consideration are involved for all years under consideration before us, all appeals are being disposed of by way of a common order.

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

> "1. Ground No 1- Upward adjustment of INR 8,70,342 in respect of notional interest on outstanding receivable.
>
> 1.1. On the facts and in the circumstances of the case and in low, the Hon'ble CIT(A) has erred in confirming the upward adjustment of INR 8,70,362 to the total income of the Appellant proposed by the learned Transfer Pricing Officer (learned "TPO') in respect of notional interest on outstanding receivables from Associated Enterprises ('AES').
>
> 1.2. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned TPO has erred in not appreciating the fact that outstanding receivable is not an international transaction, per se, under section 92B of the Act but an integral part of the primary transaction of sale of goods to AEs and cannot be seen in isolation.
>
> 1.3. On the facts and in the circumstances of the case and in law, the Hon'ble CIT (A) / learned TPO has erred in re-characterizing outstanding receivable as loan financing transactions.
>
> 1.4. On the facts and in the circumstances of the case and in law, the Hon'ble CTT(A)/learned TPO has erred in facts and circumstances of the case and in law, in disregarding the fact that working capital adjustment takes into account the impact of outstanding receivables on the profitability and therefore, no further imputation of interest is warranted.
>
> 1.5. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned TPO has erred in not appreciating the fact that charging interest on the outstanding receivables amounts to levying notional income and not real income.
>
> 1.6. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned TPO has erred in not appreciating the fact that the Appellant is a debt free company and hence adjustment of notional interest income is unwarranted.
>
> The Appellant craves leave to add, alter, amend or withdraw any of the above grounds at or before hearing of the appeal.
>
> All the grounds of appeal stated above are without prejudice to each other."

"1. Ground No 1- Upward adjustment of INR 89,49,166 in respect of notional interest on outstanding receivable.

1.1. On the facts and in the circumstances of the case and in low, the Hon'ble CIT(A) has erred in confirming the upward adjustment of INR 89,49,166 to the total income of the Appellant proposed by the learned Assessing Officer (learned "AO') in respect of notional interest on outstanding receivables from Associated Enterprises ('AES').

1.2. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A) has erred in not adjudicating the ground of appeal wherein the Appellant contended that the Transfer Pricing adjustment made by the learned AO is without jurisdiction, as the learned AO is not vested with the authority to determine the Arm's Length Price of an international transaction.

1.3. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned TPO has erred in not appreciating the fact that outstanding receivable is not an international transaction, per se, under section 92B of the Act but an integral part of the primary transaction of sale of goods to AEs and cannot be seen in isolation.

1.4. On the facts and in the circumstances of the case and in law, the Hon'ble CIT (A) / learned AO has erred in re-characterizing outstanding receivable as loan financing transactions.

1.5. On the facts and in the circumstances of the case and in law, the Hon'ble CTT(A)/learned AO has erred in facts and circumstances of the case and in law, in disregarding the fact that working capital adjustment takes into account the impact of outstanding receivables on the profitability and therefore, no further imputation of interest is warranted.

1.6. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned AO has erred in not appreciating the fact that charging interest on the outstanding receivables amounts to levying notional income and not real income.

1.7. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned AO has erred in not appreciating the fact that the Appellant is a debt free company and hence adjustment of notional interest income is unwarranted.

The Appellant craves leave to add, alter, amend or withdraw any of the above grounds at or before hearing of the appeal.

All the grounds of appeal stated above are without prejudice to each other."

"1. Ground No 1- Upward adjustment of INR 52,48,817 in respect of notional interest on outstanding receivable.

1.1. On the facts and in the circumstances of the case and in low, the Hon'ble CIT(A) has erred in confirming the upward adjustment of INR 52,48,817 to the total income of the ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 4- Appellant proposed by the learned Assessing Officer (learned "AO') in respect of notional interest on outstanding receivables from Associated Enterprises ('AES').

1.2. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A) has erred in not adjudicating the ground of appeal wherein the Appellant contended that the Transfer Pricing adjustment made by the learned AO is without jurisdiction, as the learned AO is not vested with the authority to determine the Arm's Length Price of an international transaction.

1.3. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned TPO has erred in not appreciating the fact that outstanding receivable is not an international transaction, per se, under section 92B of the Act but an integral part of the primary transaction of sale of goods to AEs and cannot be seen in isolation.

1.4. On the facts and in the circumstances of the case and in law, the Hon'ble CIT (A) / learned AO has erred in re-characterizing outstanding receivable as loan financing transactions.

1.5. On the facts and in the circumstances of the case and in law, the Hon'ble CTT(A)/learned AO has erred in facts and circumstances of the case and in law, in disregarding the fact that working capital adjustment takes into account the impact of outstanding receivables on the profitability and therefore, no further imputation of interest is warranted.

1.6. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned AO has erred in not appreciating the fact that charging interest on the outstanding receivables amounts to levying notional income and not real income.

1.7. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned AO has erred in not appreciating the fact that the Appellant is a debt free company and hence adjustment of notional interest income is unwarranted.

The Appellant craves leave to add, alter, amend or withdraw any of the above grounds at or before hearing of the appeal.

All the grounds of appeal stated above are without prejudice to each other."

"1. Ground No 1- Upward adjustment of INR 25,80,516 in respect of notional interest on outstanding receivable.

1.1. On the facts and in the circumstances of the case and in low, the Hon'ble CIT(A) has erred in confirming the upward adjustment of INR 25,80,516 to the total income of the Appellant proposed by the learned Assessing Officer (learned "AO') in respect of notional interest on outstanding receivables from Associated Enterprises ('AES').

1.2. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A) has erred in not adjudicating the ground of appeal wherein the Appellant contended that the Transfer Pricing adjustment made by the learned AO is without jurisdiction, as the ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 5- learned AO is not vested with the authority to determine the Arm's Length Price of an international transaction.

1.3. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned TPO has erred in not appreciating the fact that outstanding receivable is not an international transaction, per se, under section 92B of the Act but an integral part of the primary transaction of sale of goods to AEs and cannot be seen in isolation.

1.4. On the facts and in the circumstances of the case and in law, the Hon'ble CIT (A) / learned AO has erred in re-characterizing outstanding receivable as loan financing transactions.

1.5. On the facts and in the circumstances of the case and in law, the Hon'ble CTT(A)/learned AO has erred in facts and circumstances of the case and in law, in disregarding the fact that working capital adjustment takes into account the impact of outstanding receivables on the profitability and therefore, no further imputation of interest is warranted.

1.6. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned AO has erred in not appreciating the fact that charging interest on the outstanding receivables amounts to levying notional income and not real income.

1.7. On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A)/learned AO has erred in not appreciating the fact that the Appellant is a debt free company and hence adjustment of notional interest income is unwarranted.

The Appellant craves leave to add, alter, amend or withdraw any of the above grounds at or before hearing of the appeal.

All the grounds of appeal stated above are without prejudice to each other."

3. The brief facts of the case are that the assessee company, namely Reckitt Benckiser Healthcare India Private Limited, is engaged in the business of manufacturing and trading of healthcare and consumer healthcare products and filed its return of income for the relevant assessment year declaring loss under the normal provisions of the Income-tax Act, 1961 and book profits under section 115JB of the Act. The case was selected for scrutiny assessment and reference under section 92CA(1) of the Act was made to the Transfer Pricing Officer in respect of international transactions entered into by the assessee with its Associated Enterprises. Accordingly, assessment proceedings were completed under section 143(3) read with sections 92CA and 144C of the Act.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 6-

4. During the course of transfer pricing proceedings, the Transfer Pricing Officer examined the international transactions entered into by the assessee with its Associated Enterprises comprising export sales, receipt of royalty and other connected transactions. Upon examination of the aging analysis of receivables, the Transfer Pricing Officer observed that receivables arising from export sales and royalty transactions remained outstanding beyond the stipulated credit period allowed to Associated Enterprises. The Transfer Pricing Officer formed a view that excessive delay in realization of sale proceeds effectively amounted to financing arrangement or loan advanced by the assessee to its Associated Enterprises without charging arm's length interest. Accordingly, invoking the provisions of section 92B of the Act read with Explanation inserted by the Finance Act, 2012 with retrospective effect from 01.04.2002, the Transfer Pricing Officer treated delayed receivables as a separate international transaction distinct from the principal transaction of sale of goods. The Transfer Pricing Officer thereafter benchmarked the said transaction independently by adopting LIBOR-based interest rates with additional mark-up towards credit and foreign exchange risks and proposed an upward transfer pricing adjustment of Rs.8,70,362/- on account of notional interest receivable from Associated Enterprises. The Assessing Officer incorporated the said adjustment in the final assessment order.

5. The Assessing Officer further examined the claim of depreciation amounting to Rs.3,72,32,55,681/- made by the assessee on goodwill arising pursuant to amalgamation. The Assessing Officer observed that the amalgamation had been accounted for under the pooling of interest method as approved under the scheme sanctioned by the Hon'ble Punjab and Haryana High Court. According to the Assessing Officer, under the pooling of interest ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 7- method, the assets, liabilities and reserves of the amalgamating entity are carried forward at their existing book values and no excess consideration over the net assets acquired is recognized as

goodwill. The Assessing Officer therefore held that no goodwill capable of depreciation under section 32(1)(ii) of the Act had in fact arisen pursuant to the amalgamation. The Assessing Officer further observed that the alleged goodwill represented merely a self- generated intangible asset and did not constitute any independently identifiable business or commercial right eligible for depreciation under the provisions of the Act. It was also observed that the assessee had failed to furnish any separate valuation report or supporting material quantifying business rights, customer relationships, marketing network, distribution infrastructure or other commercial rights allegedly acquired pursuant to amalgamation so as to justify recognition of goodwill. Accordingly, the Assessing Officer disallowed the depreciation claim of Rs.3,72,32,55,681/- made on goodwill.

6. The Assessing Officer also disallowed product registration and regulatory approval expenditure amounting to Rs.5,27,000/- claimed by the assessee under section 37(1) of the Act. During the course of assessment proceedings, the Assessing Officer observed that the assessee had incurred substantial expenditure towards obtaining registrations, licenses and regulatory approvals from various healthcare and pharmaceutical regulatory authorities in India as well as overseas jurisdictions. According to the Assessing Officer, such expenditure resulted in acquisition of enduring commercial advantage by enabling the assessee to commercially exploit its products over a long period in domestic and international markets. The Assessing Officer further observed that the process of obtaining regulatory ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 8- approvals involved extensive technical documentation, scientific analysis, bio-equivalence studies, product validation reports and compliance procedures, which according to him resulted in creation of valuable commercial and intangible rights. The Assessing Officer was therefore of the view that the expenditure was capital in nature since it conferred enduring business benefit upon the assessee and could not be regarded as routine operational expenditure incurred wholly and exclusively for the purposes of business. Accordingly, the Assessing Officer disallowed the product registration expenditure of Rs.5,27,000/- claimed by the assessee as revenue expenditure under section 37(1) of the Act.

7. The principal dispute in the assessment proceedings pertained to the deduction claimed by the assessee under section 80-IC of the Act in respect of profits derived from its manufacturing undertaking situated at Baddi, Himachal Pradesh. The assessee had claimed deduction under section 80-IC on the profits disclosed by the said eligible industrial undertaking on the premise that the undertaking was engaged in the manufacture and sale of eligible products and satisfied all statutory conditions prescribed under Chapter VI-A of the Act. During the course of assessment proceedings, however, the Assessing Officer undertook a detailed examination of the profit margins declared by the Baddi Unit and observed that the profitability disclosed by the unit was exceptionally high when compared to ordinary manufacturing concerns operating in similar line of business. According to the Assessing Officer, such abnormal profit margins could not be attributed solely to the routine manufacturing functions carried out by the eligible undertaking.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

8. The Assessing Officer was of the view that the products manufactured by the assessee derived substantial commercial value not merely from the manufacturing activity undertaken at Baddi but predominantly from the ownership and exploitation of well-established brands, marketing intangibles, consumer goodwill, advertising infrastructure, extensive dealer network and market penetration created by the assessee company at the corporate level over several years. The Assessing Officer observed that the assessee was part of a globally recognized consumer healthcare group possessing substantial brand value and marketing strength, and that the premium pricing and higher margins earned by the products were attributable substantially to such brand reputation and market positioning rather than mere manufacturing operations undertaken by the eligible industrial undertaking. The Assessing Officer further observed that the Baddi Unit was essentially engaged in physical manufacturing of products, whereas critical value-enhancing functions such as brand conceptualization, product strategy, nationwide marketing campaigns, distribution management, sales promotion, dealer incentives, consumer awareness programmes and maintenance of market share were being performed by the corporate offices and marketing divisions situated outside the eligible undertaking. According to the Assessing Officer, these functions constituted economically significant activities contributing materially to the profitability of the products and therefore profits attributable to such functions could not be regarded as profits "derived from" the industrial undertaking eligible for deduction under section 80-IC.

9. The Assessing Officer also analyzed the functional profile of the assessee and observed that the products manufactured by the Baddi Unit were ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 10- sold under highly reputed and established brand names enjoying considerable consumer loyalty and market acceptance. According to the Assessing Officer, such brand-driven profitability resulted in substantial premium realization in the market and therefore the profits disclosed by the eligible undertaking were inflated due to intangible assets and commercial rights owned outside the industrial undertaking. The Assessing Officer was therefore of the opinion that allowing deduction under section 80-IC on the entire profits disclosed by the Baddi Unit would effectively result in extending tax incentives not only to manufacturing profits but also to profits attributable to marketing intangibles, brand exploitation and centralized commercial functions carried out outside the notified area. Proceeding on the aforesaid reasoning, the Assessing Officer invoked the underlying principles embedded in sections 80IA(8) and 80IA(10) of the Act and formed a view that the profits of the eligible undertaking required reasonable recomputation so as to exclude profits attributable to non-manufacturing and non-eligible functions. The Assessing Officer observed that where transactions between eligible and non- eligible units or business divisions result in inflation of profits of the eligible undertaking beyond ordinary market conditions, the statute empowers the revenue authorities to determine reasonable profits derived from the eligible business. According to the Assessing Officer, the profits declared by the Baddi Unit did not reflect mere manufacturing profits but included embedded returns attributable to centralized marketing infrastructure and brand value developed outside the undertaking. The Assessing Officer therefore proceeded to bifurcate the profits of the Baddi Unit into two components, namely, manufacturing profits

attributable to the industrial undertaking and excess profits attributable to brand ownership, marketing support functions and distribution infrastructure existing outside the eligible undertaking. For ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 11- the purpose of such bifurcation, the Assessing Officer adopted a notional allocation methodology by attributing royalty and brand usage charges at the rate of 15% of sales generated by the Baddi Unit. According to the Assessing Officer, such notional allocation represented the economic value derived by the undertaking from use of established brands, market reputation and centralized selling infrastructure owned and maintained by the assessee company outside the eligible industrial undertaking. The Assessing Officer further observed that independent manufacturers operating without ownership of valuable brands and marketing infrastructure ordinarily earn lower margins and therefore the extraordinary profitability disclosed by the Baddi Unit clearly demonstrated that substantial portion of profits arose from non-manufacturing functions. It was accordingly held that the deduction under section 80-IC could not be permitted in respect of such excess profits attributable to marketing and branding activities. Consequently, after allocating notional royalty and brand usage charges at 15% of sales, the Assessing Officer recomputed the eligible profits of the Baddi Unit and reduced the deduction claimed under section 80-IC by excluding the portion of profits allegedly attributable to non-eligible brand-related and marketing functions performed outside the industrial undertaking.

10. The Assessing Officer further examined the claim of deduction under section 80-IC of the Act in relation to scrap income earned by the eligible industrial undertaking situated at Baddi and observed that the assessee had included scrap income of Rs.75,39,057/- as part of profits eligible for deduction under Chapter VI-A. During the course of assessment proceedings, the Assessing Officer analyzed the scope of the expression "profits and gains derived from" occurring in section 80-IC and formed a view that the ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 12- Legislature intended to grant deduction only in respect of profits having direct and immediate nexus with the manufacturing activities carried out by the eligible industrial undertaking. According to the Assessing Officer, although the scrap may have emerged during the course of manufacturing operations, the income generated from sale of scrap could not be regarded as profits directly "derived from" the industrial undertaking inasmuch as such receipts were merely incidental or ancillary to the main manufacturing activity and not the primary operational output of the undertaking. The Assessing Officer was of the view that the expression "derived from" used in section 80-IC has a narrow and restrictive connotation as interpreted by judicial precedents and requires first degree nexus between the income and the manufacturing activity of the eligible undertaking. Proceeding on the aforesaid reasoning, the Assessing Officer held that scrap sales did not constitute operational manufacturing profits in the strict sense but represented realization from disposal of incidental by-products or remnants generated during the manufacturing process. According to the Assessing Officer, such receipts lacked the direct source nexus contemplated under section 80-IC and therefore could not qualify for deduction merely because they arose during the course of business operations of the eligible undertaking. The Assessing Officer further observed

that the deduction under section 80-IC is a special incentive provision intended to promote industrial growth in specified areas and therefore the scope of eligible profits should be confined strictly to profits arising directly from manufacturing activities. The Assessing Officer accordingly concluded that scrap income represented ancillary receipts distinct from profits derived from manufacture and sale of eligible products. On the basis of the aforesaid reasoning, the Assessing Officer excluded scrap income of Rs.75,39,057/- from the eligible profits of the Baddi Unit while ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 13- computing deduction under section 80-IC of the Act and thereby reduced the deduction allowable to the assessee under Chapter VI-A.

11. Aggrieved by the aforesaid additions and disallowances, the assessee preferred appeal before the ld. CIT(Appeals).

12. During appellate proceedings, the assessee contended that the Transfer Pricing Officer had erred in artificially segregating receivables from the principal international transactions of export sales and royalty income. It was submitted that the international transactions had already been benchmarked under the Transactional Net Margin Method and the assessee had earned operating margin of 56.69%, which was substantially higher than working capital adjusted margins of comparable companies at 19.13%. According to the assessee, once working capital adjustment was granted under TNMM, the impact of outstanding receivables already stood embedded in the profitability analysis and any further adjustment by imputing notional interest would result in duplication and overstatement of taxable income. Reliance was placed upon the decision of the Ahmedabad Income Tax Appellate Tribunal in Micro Inks Ltd. v. Assistant Commissioner of Income-tax and the judgment of the Delhi High Court in Kusum Health Care (P.) Ltd. v. Assistant Commissioner of Income-tax wherein it was held that once working capital adjustment is granted under TNMM, separate adjustment on account of delayed receivables is generally unwarranted. The assessee further contended that trade receivables arising during the ordinary course of business cannot automatically be recharacterized as unsecured loans merely because realization exceeded stipulated credit period. It was argued that receivables are intrinsically linked to the principal transaction of sale and ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 14- therefore separate benchmarking of receivables distorts the aggregation principle recognized under Rule 10A(d) and Rule 10B of the Income-tax Rules. Reliance was also placed upon the judgment of the Delhi High Court in Commissioner of Income-tax v. EKL Appliances Ltd. to contend that transfer pricing provisions do not permit tax authorities to disregard actual commercial transactions and substitute them with hypothetical financing arrangements.

13. The ld. CIT(Appeals), however, after considering the assessment order, Transfer Pricing Officer's findings and submissions of the assessee, upheld the transfer pricing adjustment of Rs.8,70,362/-. The ld. CIT(Appeals) observed that Explanation to section 92B inserted by the Finance Act, 2012 specifically includes "receivables", "deferred payments" and "business debts" within the scope of international transactions and therefore excessive delay in realization of receivables from Associated

Enterprises constitutes a separate international transaction requiring independent benchmarking. The ld. CIT(Appeals) further observed that transfer pricing analysis proceeds on the assumption that Associated Enterprises are separate economic entities and therefore prolonged credit period extended to Associated Enterprises without charging arm's length compensation effectively results in financing benefit to Associated Enterprises. Reliance was placed upon the judgment of the Hon'ble Delhi High Court in Pr. Commissioner of Income-tax v. Cotton Naturals (I) (P.) Ltd. and the decision of the Delhi Income Tax Appellate Tribunal in Ameriprise India (P.) Ltd. v. Assistant Commissioner of Income- tax wherein it was held that delayed receivables beyond agreed credit period may constitute independent international transactions requiring separate arm's length analysis. The ld. CIT(Appeals) also rejected the contention of ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 15- the assessee that working capital adjustment under TNMM neutralized the impact of delayed receivables. According to the ld. CIT(Appeals), excessive delay in realization of receivables beyond the permissible credit period constitutes a separate financing arrangement independent of routine working capital differences. The ld. CIT(Appeals) therefore held that separate benchmarking of delayed receivables was legally justified and accordingly upheld the transfer pricing adjustment made by the Transfer Pricing Officer.

14. With respect to depreciation on goodwill, he ld. CIT(Appeals) observed that although amalgamation was accounted for under the pooling of interest method, the accounting treatment by itself could not conclusively determine allowability of depreciation under the Income-tax Act. It was observed that goodwill represents commercial rights arising from acquisition of business synergies, customer relationships, marketing network, distribution channels and reputation and therefore falls within the scope of "any other business or commercial rights of similar nature" contemplated under section 32(1)(ii). Following the ratio laid down by the Hon'ble Supreme Court in Commissioner of Income-tax v. Smifs Securities Ltd., the ld. CIT(Appeals) directed the Assessing Officer to allow depreciation on goodwill and accordingly granted relief to the assessee.

15. In relation to product registration expenses, the CIT(Appeals) held that product registration expenditure did not create any transferable capital asset or enduring proprietary right. The ld. CIT(Appeals) observed that such expenditure was recurring in nature and incurred as part of the regulatory framework governing sale of healthcare products. It was further observed that the expenditure merely enabled the assessee to carry on its existing business ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 16- operations more effectively and therefore constituted allowable business expenditure under section 37(1) of the Act. Relying upon judicial precedents including the decision in Commissioner of Income-tax v. Cadila Healthcare Ltd. and earlier appellate orders in assessee's own case, the ld. CIT(Appeals) held that product registration expenditure was revenue in nature and allowable under section 37(1) of the Act. Accordingly, the disallowance made by the Assessing Officer on account of product registration expenses was deleted. Accordingly, the disallowance made by the Assessing Officer was deleted.

16. The ld. CIT(Appeals), while adjudicating the assessee's challenge to the reduction of deduction under section 80-IC by undertook a detailed examination of the factual matrix, statutory framework and reasoning adopted by the Assessing Officer for reallocating a portion of the profits of the Baddi Unit towards alleged brand exploitation and marketing functions. The ld. CIT(Appeals) noted that the Assessing Officer had proceeded on the premise that the profits disclosed by the eligible undertaking were abnormally high and therefore a substantial component of such profits was attributable not to manufacturing activities carried out by the Baddi Unit but to brand value, marketing intangibles, selling infrastructure and distribution functions existing outside the eligible industrial undertaking. The Assessing Officer had consequently allocated notional royalty and brand usage charges at 15% of sales and thereby reduced deduction under section 80-IC. The ld. CIT(Appeals) observed that the assessee was admittedly carrying on manufacturing operations at the eligible industrial undertaking situated at Baddi and there was no dispute regarding the fact that the products in question were physically manufactured by the undertaking itself. The ld. CIT(Appeals) ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 17- further noted that the Assessing Officer had not disputed the genuineness of manufacturing activities, quantitative records, consumption of raw materials, production process or sale of finished goods from the eligible unit. The ld. CIT(Appeals) observed that section 80-IC of the Act grants deduction in respect of profits and gains derived from manufacture or production carried out by eligible industrial undertaking and once the manufacturing activity itself is accepted as genuine and eligible, the profits earned therefrom cannot be artificially dissected and apportioned on hypothetical considerations unless the conditions prescribed under the Act for such reallocation are specifically established. According to the ld. CIT(Appeals), the Assessing Officer had attempted to import transfer pricing style profit allocation principles into deduction provisions under Chapter VI-A without any specific statutory authority or objective benchmarking exercise. The ld. CIT(Appeals) further observed that although the Assessing Officer referred to brand ownership, market penetration and consumer goodwill, no material had been brought on record to establish that the eligible undertaking had either paid inadequate consideration for use of brands or that any arrangement existed between eligible and non-eligible units resulting in artificial inflation of profits of the Baddi Unit. The ld. CIT(Appeals) specifically noted that no comparable data, industry analysis, third-party agreements or scientific valuation exercise had been undertaken by the Assessing Officer to justify adoption of notional royalty and brand usage charges at 15% of sales. According to the ld. CIT(Appeals), the percentage adopted by the Assessing Officer was entirely ad hoc, arbitrary and unsupported by empirical evidence. The ld. CIT(Appeals) further analyzed the applicability of sections 80IA(8) and 80IA(10), principles of which had indirectly been invoked by the Assessing Officer while reallocating profits of the eligible undertaking. The ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 18- ld. CIT(Appeals) observed that these provisions can be invoked only where there exists close connection or arrangement between eligible and non- eligible entities resulting in more than ordinary profits to the eligible undertaking. However, according to the ld. CIT(Appeals), before invoking such provisions, the Assessing Officer is required to demonstrate with tangible material that the profits of the undertaking are artificially inflated due to any arrangement or manipulation

of transactions. In the present case, the ld. CIT(Appeals) found that the Assessing Officer had merely proceeded on general assumptions regarding high profitability and brand value without demonstrating any specific arrangement or diversion of profits warranting recomputation of eligible profits. The ld. CIT(Appeals) further noted that the assessee's products were admittedly manufactured at the Baddi Unit and sold in the ordinary course of business and that profits earned from such manufacturing activity could not be segregated merely because the products were marketed under established brand names. According to the ld. CIT(Appeals), in modern commercial business environment, manufacturing and branding functions are often integrated business activities and the mere existence of strong brand value cannot lead to automatic conclusion that manufacturing profits eligible for deduction must be artificially reduced. It was observed that the statute does not contemplate bifurcation of manufacturing profits into "brand profits" and "production profits" in absence of any specific statutory mandate.

17. The ld. CIT(Appeals) also took note of the fact that similar deduction claims had been allowed in earlier years and that no change in factual pattern or business model had been brought on record by the Assessing Officer to justify departure from the settled position. It was further observed that the ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 19- Assessing Officer had failed to identify any expenditure incurred outside the eligible undertaking which had not already been duly accounted for in the books of account of the assessee while computing profits of the Baddi Unit. Therefore, according to the ld. CIT(Appeals), the allegation that profits of the undertaking were inflated due to centralized marketing functions remained unsupported by objective evidence.

18. After detailed examination of the issue from factual as well as legal perspective, the ld. CIT(Appeals) held that the Assessing Officer was not justified in allocating notional royalty and brand usage charges at 15% of sales while recomputing eligible profits of the Baddi Unit. The ld. CIT(Appeals) held that the methodology adopted by the Assessing Officer lacked statutory sanction, factual foundation and objective comparability analysis and therefore the recomputation of deduction under section 80-IC was unsustainable in law. Accordingly, the ld. CIT(Appeals) deleted the reduction made by the Assessing Officer and directed that deduction under section 80-IC be allowed on the profits disclosed by the eligible industrial undertaking as claimed by the assessee.

19. On the separate issue relating to scrap income, the assessee contended that scrap generated during manufacturing operations had direct nexus with industrial activity carried out by the eligible undertaking and therefore scrap income formed part of profits derived from industrial undertaking eligible for deduction under section 80-IC. The ld. CIT(Appeals) accepted the contention of the assessee and observed that generation of scrap is an inevitable incident of manufacturing operations and therefore scrap income bears direct and immediate nexus with industrial activity carried out at the Baddi Unit.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 20- Accordingly, following settled judicial principles governing the expression "derived from", the ld. CIT(Appeals) directed inclusion of scrap income while computing deduction under section 80-IC of the Act.

20. Thus, while the ld. CIT(Appeals) upheld the transfer pricing adjustment of Rs.8,70,362/- made on account of delayed receivables from Associated Enterprises, substantial relief was granted to the assessee in respect of depreciation on goodwill, allowability of product registration expenditure, computation of deduction under section 80-IC and inclusion of scrap income in eligible profits.

21. Both the assessee and Department are in appeal before us against the order passed by CIT(Appeals).

22. We shall first take up the assessee's appeal with respect to issue of upward adjustment on notional interest on outstanding receiveable.

23. The controversy involved in the present set of appeals pertains to Assessment Years 2014-15, 2015-16, 2016-17 and 2017-18. The Transfer Pricing Officer treated receivables outstanding beyond the stipulated credit period as separate international transactions in the nature of unsecured loans advanced to Associated Enterprises and accordingly imputed arm's length interest thereon by applying LIBOR-based rates along with additional basis points. The additions so made were sustained by the ld. CIT(Appeals), against which the assessee is in further appeal before us.

24. Before us, the ld. counsel for the assessee challenged the impugned adjustment on three independent legal and factual grounds.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 21-

25. Firstly, it was submitted that once the international transactions have been benchmarked under the Transactional Net Margin Method ("TNMM") and working capital adjustment has been granted, no separate adjustment on account of receivables is permissible since the impact of receivables already stands subsumed in the working capital adjustment mechanism itself. Secondly, it was submitted that the assessee is admittedly a debt-free company and therefore there exists no financing cost incurred by the assessee warranting any hypothetical interest adjustment. Thirdly, the ld. counsel for the assessee placed reliance on CBDT Instruction No.3/2016 dated 10.03.2016 to contend that separate adjustment on receivables is not envisaged once overall margins are accepted to be at arm's length. We note that the third limb of the argument based on CBDT Instruction No.3/2016 would have relevance only from Assessment Years 2015-16 onwards and admittedly would not govern Assessment Year 2014-15.

26. We have carefully considered the rival submissions, perused the assessment order, transfer pricing order, appellate findings and the judicial precedents relied upon by the ld. counsel for the assessee. Upon detailed consideration of the issue from the perspective of transfer pricing

jurisprudence and the Statutory scheme embodied under Chapter X of the Act, we are of the considered view that the impugned additions are liable to be deleted.

27. At the outset, it is necessary to appreciate the true nature and character of receivables arising from international transactions. Under transfer pricing law, a distinction is required to be maintained between an independent financing transaction and a trade receivable arising in the ordinary course of ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 22- business from the principal transaction of sale or rendering of services. Receivables are not standalone commercial arrangements divorced from the underlying sale transaction but constitute integral and incidental components thereof. Once the principal international transaction has been benchmarked under TNMM and the tested party's margins are found to be at arm's length vis-à-vis comparable uncontrolled enterprises, ordinarily no further segregation and independent benchmarking of receivables is warranted unless the Revenue demonstrates existence of extraordinary delay or an independent financing arrangement having separate economic substance.

28. In the present case, it is not disputed that the assessee benchmarked its international transactions under TNMM and after granting working capital adjustment, the operating margins earned by the assessee were substantially higher than those earned by comparable uncontrolled enterprises. Thus, the economic impact of receivables already stood embedded in the working capital structure and profitability analysis undertaken under TNMM itself. Once that is so, any further adjustment by imputing hypothetical interest on receivables would necessarily result in duplication of adjustment and artificial inflation of taxable income.

29. We find that the issue involved in the present appeals is now substantially covered in favour of the assessee by a consistent line of judicial precedents relied upon by the ld. counsel for the assessee, particularly the decisions rendered by the Ahmedabad Benches and Delhi Benches of the Tribunal, which have analyzed the interplay between working capital adjustment under TNMM and separate transfer pricing adjustment on outstanding receivables.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 23-

30. In Milacron India Pvt. Ltd. v. Deputy Commissioner of Income- tax ITA No. 2201/Ahd/2024, the Ahmedabad Bench of the Tribunal undertook an exhaustive examination of the entire jurisprudence relating to delayed receivables under transfer pricing provisions. In the said case also, the Transfer Pricing Officer had sought to treat receivables outstanding beyond the agreed credit period as separate international transactions requiring independent benchmarking by imputing notional interest. The Tribunal, after examining the working capital adjustment mechanism under TNMM, held that receivables are inherently embedded in the working capital structure of business operations and therefore once working capital adjustment has already been granted while benchmarking operating margins, no further separate adjustment on account of receivables

survives. The Tribunal specifically observed that working capital adjustment itself is intended to neutralize differences arising from varying levels of receivables, payables and inventory between tested party and comparables and therefore any subsequent addition by imputing notional interest on receivables would necessarily lead to duplication of transfer pricing adjustment. The Tribunal in Milacron India Pvt. Ltd. (supra) further held that trade receivables are not standalone financing arrangements but are incidental and intrinsically linked to the principal international transaction of sale or provision of services. Rejecting the Revenue's attempt to artificially segregate receivables from the principal transaction, the Tribunal observed in clear terms:

> "Outstanding receivables are not independent transactions divorced from the principal transaction of sale. Once working capital adjustment is granted while benchmarking the operating margins under TNMM, the impact of receivables already stands factored into the comparability analysis and therefore separate transfer pricing adjustment by imputing notional interest would amount to duplication."

31. The Tribunal further held:

> ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18
>
> - 24-
>
> "The purpose of working capital adjustment is precisely to neutralize differences arising from varying credit periods, receivables and payables between the tested party and comparable companies. Therefore, once such adjustment is granted, no separate benchmarking of receivables is ordinarily warranted."

32. The Tribunal accordingly deleted the transfer pricing adjustment by holding that once overall margins of the assessee are accepted to be at arm's length after working capital adjustment, no further notional interest adjustment is permissible.

33. Similarly, in Intas Pharmaceuticals Ltd. v. Assistant Commissioner of Income-tax 156 taxmann.com 391 (Ahmedabad - Trib.), the Ahmedabad Bench of the Tribunal dealt extensively with the question whether delayed receivables from Associated Enterprises could be treated as separate international transactions warranting independent benchmarking. In that case also, the assessee had benchmarked its international transactions under TNMM and had earned margins substantially higher than comparable uncontrolled entities even after working capital adjustment. The Tribunal held that the very purpose of granting working capital adjustment is to account for differences in credit period and receivables position vis-à-vis comparables and therefore separate addition towards receivables would amount to taxing the same factor twice. The Tribunal also analyzed Explanation to section 92B inserted by the Finance Act, 2012 and observed that although receivables may technically fall within the ambit of "international transaction", the mere inclusion of receivables within the Statutory definition does not mandate automatic adjustment in every case. The Tribunal clarified that transfer pricing provisions require determination of real economic

benefit arising to Associated Enterprises and where the tested party's margins are demonstrably higher than arm's length margins ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 25- under TNMM, no separate economic benefit can be presumed merely because receivables remain outstanding beyond stipulated credit period. The Tribunal categorically observed:

> "Where the impact of receivables has already been subsumed in the working capital adjustment granted under TNMM, any further addition by imputing notional interest on receivables would distort the transfer pricing analysis and result in duplication of adjustment."

34. The Tribunal further observed:

> "The mere fact that receivables are outstanding beyond the agreed credit period does not ipso facto justify a separate adjustment once the overall profitability under TNMM has been accepted to be at arm's length."

35. The aforesaid principle has subsequently been reaffirmed by the Ahmedabad Bench in Assistant Commissioner of Income-tax, Central v. Intas Pharmaceuticals Ltd. 183 taxmann.com 697 (Ahmedabad - Trib.) wherein the Revenue's appeal challenging deletion of adjustment on delayed receivables was dismissed. The Tribunal again reiterated that where working capital adjustment has already been granted and overall margins satisfy arm's length test, separate transfer pricing adjustment on receivables is not warranted. The Tribunal held that receivables arising from trading transactions cannot be viewed in artificial isolation from the principal international transaction itself.

36. We note that the Ahmedabad Bench in Effective Teleservices (P.) Ltd. v. Deputy Commissioner of Income-tax 152 taxmann.com 389 (Ahmedabad - Trib.) approached the issue from another equally important angle, namely, the financial position of the assessee and absence of any actual financing cost. The Tribunal noted that the assessee was a debt-free company operating entirely through own funds and had not incurred any interest ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 26- expenditure on borrowed capital. In such circumstances, the Tribunal held that no presumption could arise that the assessee had suffered any financing burden on account of delayed realization of receivables from Associated Enterprises.

37. The Tribunal in Effective Teleservices (P.) Ltd. (supra) made the following significant observations:

> "Transfer pricing provisions are intended to determine real income arising from international transactions and cannot be invoked for bringing to tax purely hypothetical or notional income disconnected from commercial realities."

38. The Tribunal further observed:

> "Where the assessee is debt free and no borrowed funds have been utilized for financing receivables from Associated Enterprises, computation of notional interest on such receivables becomes entirely academic and artificial."

39. The Tribunal accordingly held that in absence of actual financing cost or diversion of borrowed funds, no arm's length interest adjustment could be justified.

40. Likewise, the Delhi Bench of the Tribunal in Trend Micro India (P.) Ltd. v. Deputy Commissioner of Income-tax 139 taxmann.com 436 (Delhi

- Trib.) analyzed the issue from the standpoint of aggregation principle and working capital adjustment under TNMM. In the said case, the Tribunal observed that receivables are not independent financing transactions but closely linked and continuous components of the principal transaction of provision of services. The Tribunal held that where TNMM has been applied at entity level or segment level and working capital adjustment has already been granted, separate benchmarking of receivables would violate the principle against duplication of transfer pricing adjustment.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 27-

41. The Tribunal in Trend Micro India (P.) Ltd. (supra) specifically observed:

> "Working capital adjustment inherently factors in varying levels of receivables, payables and inventory and therefore delayed receivables cannot again be isolated for separate interest adjustment unless there exists evidence demonstrating extraordinary financing arrangement distinct from routine business transactions."

42. The Tribunal further held:

> "Once the tested party's operating margins exceed arm's length margins of comparable uncontrolled entities, the impact of receivables stands adequately compensated within the TNMM analysis itself."

43. We also derive support from the decision of the Delhi Bench of the Tribunal in Orange Business Services India Solutions (P.) Ltd. v. Deputy Commissioner of Income-tax 141 taxmann.com 167 (Delhi - Trib.) wherein it was held that working capital adjustment inherently accounts for differences in receivables, payables and inventory levels between tested party and comparables and therefore separate adjustment on delayed receivables would result in duplication.

44. The Delhi Bench of the Tribunal in Bechtel India Pvt. Ltd. v. Deputy Commissioner of Income-tax ITA No.1478/Del/2015 held that once the tested party's margins under TNMM are accepted to be at arm's length after working capital adjustment, separate addition on delayed receivables is unsustainable. Significantly, the judgment of the Tribunal was affirmed by the Hon'ble Delhi High Court in Principal Commissioner of Income-tax v. Bechtel India Pvt. Ltd. and the Special Leave Petition filed by the Revenue came to be dismissed by the Hon'ble Supreme Court of India in Principal Commissioner of Income-tax v. Bechtel India Pvt. Ltd. The consistent ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 28- affirmation of the principle across appellate hierarchy significantly fortifies the assessee's contention.

45. We further find merit in the assessee's reliance on CBDT Instruction No.3/2016 dated 10.03.2016 applicable from Assessment Year 2015-16 onwards. While CBDT Instruction No.3/2016 may not by itself conclusively decide the controversy, it substantially supports the assessee's broader contention that once working capital adjustment has already been granted and the assessee's margins under TNMM are demonstrably higher than those of comparable uncontrolled entities, separate transfer pricing adjustment on account of delayed receivables ordinarily results in duplication and distortion of arm's length analysis.

46. Having regard to the entirety of facts, judicial precedents and transfer pricing principles discussed hereinabove, we are of the considered view that the upward adjustment made on account of notional interest on outstanding receivables from Associated Enterprises is unsustainable in law for Assessment Years 2014-15, 2015-16, 2016-17 and 2017-18.

47. We accordingly direct deletion of the entire transfer pricing adjustment made on this issue.

48. Accordingly, assessee's appeal is allowed for assessment years 2014- 15, 2015-16, 2016-17 and 2017-18.

Now we shall come to Departments appeal for assessment years 2014-15, 2015-16, 2016-17 and 2017-18 in which various issues are involved. Assessment year 2014-15 ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 29-

49. The Revenue has raised the following grounds of appeal:

> "(a) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of depreciation on goodwill amounting to Rs. 372,32,55,681/- made by the AO.
>
> (b) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of with respect to product registration expense amounting to Rs. 5,27,000/-as a capital expenditure made by AO.

(c) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of deduction claimed under section 801C of the Act of Rs. 54,55,10,807/- by restricting the deduction under section 80IC of the Act to Rs. 32,33,52,849/-as against claimed in the return of income for Rs. 86,88,63,656/-, made by the AO.

(d) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of deduction under section 80IC in respect of scrap income of Rs. 75,39,057/-, made by the AO.

(e) The appellant craves leave to add, alter and/or to amend all or any the ground before the final hearing of the appeal."

"(a) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of depreciation on goodwill amounting to Rs. 2,79,24,41,761/- made by the AO.

(b) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of with respect to product registration expense amounting to Rs. 1,84,360/-as a capital expenditure made by AO.

(c) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of deduction claimed under section 801C of the Act of Rs. 75,14,32,261/- by restricting the deduction under section 80IC of the Act to Rs. 1,41,24,04,137/- made by the AO.

(d) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of deduction under section 80IC in respect of scrap income of Rs. 2,30,52,380/-, made by the AO.

(e) The appellant craves leave to add, alter and/or to amend all or any the ground before the final hearing of the appeal."

"(a) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of depreciation on goodwill amounting to Rs. 2,09,43,31,320/- made by the AO.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 30-

(b) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of with respect to product registration expense amounting to Rs. 1,84,360/-as a capital expenditure made by AO.

(c) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of deduction claimed under section 801C of the Act of Rs. 75,14,32,261/- by restricting the deduction under section 80IC of the Act to Rs. 1,41,24,04,137/- made by the AO.

(d) The Ld.CIT(A) has erred in law and on facts in deleting the disallowance of deduction under section 80IC in respect of scrap income of Rs. 79,81,816/-, made by the AO.

(e) The Ld. CIT(A) has erred in law and on facts in deleting the disallowance of claiming 100% deduction of the Profit derived from eligible undertaking under section 80IC of the Act of Rs. 1,84,19,797/- made by the AO.

(f) The appellant craves leave to add, alter and/or to amend all or any the ground before the final hearing of the appeal."

> "(a) The Ld. CIT(A) has erred in law and on facts in deleting the disallowance of depreciation on goodwill amounting to RS. 1,57,07,48,490/- made by the AO.
>
> (b) The Ld. CIT(A) has erred in law and on facts in deleting the disallowance of with respect to produce registration expense- amounting to Rs. 3,21,715/- as a capital expenditure made by the AO.
>
> (c) The appellant craves leave to add, alter and/or to amend all or any the ground before the final hearing of the appeal."

We shall now take up Ground No.1 raised by the Revenue relating to deletion of disallowance of depreciation claimed by the assessee on goodwill arising pursuant to amalgamation

50. The Assessing Officer had disallowed depreciation claimed under section 32(1)(ii) of the Act on goodwill arising on merger on the ground that the amalgamation had been accounted for under the pooling of interest method approved under the scheme sanctioned by the Hon'ble Punjab and Haryana High Court and therefore, according to the Assessing Officer, no goodwill capable of depreciation had actually arisen. The Assessing Officer ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 31- further held that the alleged goodwill represented self-generated intangible asset and not any identifiable business or commercial right eligible for depreciation under section 32(1)(ii) of the Act. The ld. CIT(Appeals), however, deleted the disallowance by following judicial precedents as well as the orders passed by the Tribunal in assessee's own case. Aggrieved by the relief granted by the ld. CIT(Appeals), the Revenue is in appeal before us.

51. We have carefully considered the rival submissions and perused the material available on record. We have also gone through the orders passed by the Coordinate Bench of the Ahmedabad Tribunal in assessee's own case for Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in ITA Nos.1245 to 1248/Ahd/2025 relied upon by the ld. counsel for the assessee.

52. Upon careful consideration of the issue from the perspective of section 32(1)(ii) of the Act and the settled jurisprudence governing depreciation on goodwill arising on amalgamation, we are of the considered view that no infirmity can be found in the order passed by the ld. CIT(Appeals).

53. At the outset, it is important to appreciate the true nature of goodwill arising on amalgamation. In commercial accounting as well as tax jurisprudence, goodwill represents the excess of consideration paid over the net value of identifiable tangible assets and liabilities acquired pursuant to business acquisition or amalgamation. Such excess consideration is attributable to valuable business and commercial rights embedded in the acquired undertaking including brand value, customer relationships, distribution network, marketing infrastructure, technical know-how, business synergies, workforce and reputation built by the transferor entity over a period of time. Therefore, goodwill arising on amalgamation is not merely an ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 32- artificial accounting entry but represents a bundle of commercial rights and advantages acquired by the amalgamated entity.

54. The principal objection of the Assessing Officer proceeds on the basis that since the amalgamation was accounted for under the pooling of interest method, no goodwill capable of depreciation could arise. In our considered view, the aforesaid approach of the Assessing Officer suffers from a fundamental misconception regarding the interaction between accounting methodology and allowance of depreciation under the Income-tax Act. The method of accounting prescribed under the scheme of amalgamation cannot override the substantive provisions contained in section 32(1)(ii) of the Act once commercial rights constituting goodwill are demonstrably acquired pursuant to amalgamation.

55. The Hon'ble Supreme Court of India in the landmark judgment in Commissioner of Income-tax v. Smifs Securities Ltd. has conclusively settled the legal position that goodwill constitutes an "asset" within the meaning of Explanation 3(b) to section 32(1) and therefore qualifies for depreciation under section 32(1)(ii) of the Act. The Hon'ble Supreme Court categorically held:

> "Goodwill is an asset under Explanation 3(b) to section 32(1) of the Act."

56. The Hon'ble Supreme Court further observed:

> "Explanation 3 states that the expression 'asset' shall mean an intangible asset, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature. A reading of the words 'any other business or commercial rights of similar nature' indicates that goodwill would fall under the expression 'any other business or commercial rights of similar nature'."

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 33-

57. Thus, the Hon'ble Supreme Court has categorically recognized that goodwill acquired on amalgamation constitutes a depreciable intangible asset eligible for depreciation under section 32(1)(ii) of the Act.

58. We further note that the very same issue now stands squarely covered in favour of the assessee by the decision of the Ahmedabad Bench of the Tribunal in assessee's own case for Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in Assessee's Own Case. The Coordinate Bench, after examining the scheme of amalgamation, accounting treatment adopted under pooling of interest method and the ratio laid down by the Hon'ble Supreme Court in Smifs Securities Ltd. (supra), upheld the claim of depreciation on goodwill arising on merger.

59. The Tribunal in assessee's own case specifically observed:

> "The excess consideration paid on amalgamation represents acquisition of valuable business and commercial rights including distribution network, market reputation, customer relationships and business synergies and therefore falls within the ambit of goodwill eligible for depreciation under section 32(1)(ii) of the Act."

60. The Coordinate Bench further held:

> "Merely because the amalgamation has been accounted for under the pooling of interest method, the same does not obliterate the existence of goodwill arising on amalgamation for the purpose of section 32(1)(ii) of the Act."

61. The Tribunal further observed:

> "Once goodwill arising on amalgamation has been accepted as part of block of intangible assets in earlier years and depreciation thereon has been consistently allowed, the Revenue cannot selectively deny depreciation in subsequent years in absence of any change in factual or legal position."

62. The aforesaid findings of the Coordinate Bench directly apply to the facts of the present case. We note that the Revenue has not brought any ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 34- distinguishing feature on record to demonstrate that the factual position in the present assessment year differs from the years already adjudicated by the Tribunal in assessee's own case.

63. We further find that the Assessing Officer proceeded on the assumption that goodwill arising on amalgamation represented "self- generated goodwill". In our considered view, the said assumption is factually and legally unsustainable. Self-generated goodwill ordinarily arises internally over a period of time without identifiable acquisition cost. However, in the present case, the goodwill arose pursuant to amalgamation involving acquisition of business undertaking for valuable consideration under a sanctioned scheme of amalgamation. Therefore, the goodwill in question represents acquired goodwill and not internally generated goodwill. The distinction between acquired goodwill and self-generated goodwill has been consistently recognized in tax jurisprudence.

64. We also note that the Revenue has not disputed the genuineness of the amalgamation scheme approved by the Hon'ble Punjab and Haryana High Court nor has any allegation been made that the transaction lacked commercial substance. Once the amalgamation itself is accepted as genuine and goodwill has arisen pursuant thereto, denial of depreciation would directly run contrary to the ratio laid down by the Hon'ble Supreme Court in Smifs Securities Ltd. (supra).

65. Having regard to the entirety of facts, the ratio laid down by the Hon'ble Supreme Court in Commissioner of Income-tax v. Smifs Securities Ltd. [2012] 348 ITR 302 (SC) and the binding decision of the Coordinate Bench of the Ahmedabad Tribunal in assessee's own case for Assessment ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 35- Years 2012-13, 2013-14, 2020-21 and 2022-23 in ITA Nos.1245 to 1248/Ahd/2025, we are of the considered view that the ld. CIT(Appeals) was justified in deleting the disallowance of depreciation on goodwill arising on amalgamation.

66. We therefore find no merit in Ground No.1 raised by the Revenue. The same is accordingly dismissed.

67. Since this Ground of Appeal relating to depreciation on goodwill applies to assessment years 2015-16, 2016-17 and 2017-18, as well where the facts are identical, this ground of the Department is dismissed in light of the above observations.

We shall now take up Ground No. 2 raised by the Revenue relating to product registration expenses:

68. We shall now take up the next issue arising in the Revenue's appeal relating to deletion of disallowance made by the Assessing Officer in respect of product registration expenses claimed by the assessee as revenue expenditure under section 37(1) of the Act. The Assessing Officer had treated the expenditure incurred towards product registrations, regulatory approvals, technical compliances, licenses and statutory permissions obtained from various healthcare and pharmaceutical regulatory authorities as capital expenditure on the ground that such expenditure resulted in enduring commercial benefit and facilitated long-term exploitation of products in domestic as well as overseas markets. According to the Assessing Officer, the registration process involved substantial technical documentation, scientific studies, bio-equivalence reports, regulatory filings and compliance ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 36- procedures which allegedly resulted in creation of valuable commercial rights and therefore the expenditure was capital in nature. The ld. CIT(Appeals), however, deleted the disallowance by following the decisions rendered by the Coordinate Bench of the Ahmedabad Tribunal in assessee's own case for earlier assessment years. Aggrieved by the relief granted by the ld. CIT(Appeals), the Revenue is in appeal before us.

69. We have carefully considered the rival submissions, perused the assessment order, appellate findings and the judicial precedents relied upon by the ld. counsel for the assessee. Upon careful

examination of the issue from the perspective of section 37(1) of the Act and settled principles governing distinction between capital and revenue expenditure, we are of the considered view that the ld. CIT(Appeals) was justified in deleting the disallowance made by the Assessing Officer.

70. At the outset, it is important to appreciate the true commercial character of product registration expenditure incurred by pharmaceutical and healthcare companies. In the pharmaceutical industry, obtaining product registrations, regulatory approvals and marketing permissions from statutory authorities constitutes an indispensable and recurring business requirement for carrying on manufacturing and trading operations. Such expenditure is incurred not for acquisition of any independent capital asset or proprietary right of enduring nature but to enable the assessee to commercially market its products in compliance with Statutory regulatory framework governing healthcare products. The expenditure is integrally connected with carrying on of day-to-day business operations and facilitating commercial sale of products in ordinary course of business.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 37-

71. The principal objection of the Assessing Officer is founded upon the theory of "enduring benefit". However, it is now well settled that the test of enduring benefit is not a rigid or conclusive test and merely because some commercial advantage may endure for more than one year, the expenditure does not automatically become capital in nature. The real test is whether the expenditure results in acquisition of a capital asset or profit-making apparatus as distinguished from facilitating efficient conduct of existing business operations.

72. In the present case, the expenditure incurred by the assessee towards product registrations and regulatory approvals does not result in acquisition of ownership rights over any new source of income or independent intangible asset capable of being transferred or exploited separately from the business itself. The registrations merely permit the assessee to conduct business in accordance with statutory regulatory requirements imposed by healthcare authorities. Such expenditure therefore remains intrinsically linked to carrying on of business operations and cannot be elevated to the status of capital expenditure merely because regulatory approvals may remain valid for a certain period.

73. We further note that the very same issue now stands squarely covered in favour of the assessee by a consistent line of decisions rendered by the Ahmedabad Bench of the Tribunal in assessee's own case for earlier years.

74. In Assessee's Own Case pertaining to Assessment Years 2008-09 to 2010-11 (ITA Nos. 3098/Ahd/2013, 126/Ahd/2014, 1272/Ahd/2015, 1547/Ahd/2015, 1366/Ahd/2015 & 1780/Ahd/2015), the Coordinate Bench of the Ahmedabad Tribunal examined the identical issue relating to ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 38- allowability of product registration expenses incurred by the assessee. The Tribunal, after analyzing the nature of expenditure and the regulatory framework governing pharmaceutical products, held that the expenditure incurred towards product registration and regulatory approvals was allowable as revenue expenditure under section 37(1) of the Act.

75. The Tribunal in the aforesaid decision specifically observed:

> "The expenditure incurred towards product registration does not bring into existence any independent capital asset. The registrations are obtained in the ordinary course of business to enable the assessee to market its pharmaceutical products in compliance with statutory requirements."

76. The Tribunal further held:

> "The expenditure is incurred for facilitating existing business operations and not for acquisition of any new profit-making apparatus or enduring capital asset."

77. The Coordinate Bench also rejected the Revenue's contention that regulatory approvals create enduring benefit by observing:

> "Merely because the registration may remain valid for a certain duration does not alter the revenue character of the expenditure when the same is incurred wholly and exclusively for carrying on the business of the assessee."

78. The aforesaid principle was again reiterated by the Ahmedabad Bench of the Tribunal in assessee's own case for Assessment Year 2011-12 (ITA Nos.1184/Ahd/2018 & 1225/Ahd/2018). In the said decision also, the Tribunal categorically held that product registration expenses incurred by the assessee in pharmaceutical business are revenue in nature and allowable under section 37(1) of the Act. The Tribunal observed:

> "Product registration expenditure is incurred for obtaining statutory approvals necessary for carrying on business and cannot be equated with acquisition of capital asset or proprietary commercial right."

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 39-

79. The Tribunal further held:

> "The approvals granted by regulatory authorities merely enable the assessee to commercially exploit products in the ordinary course of business and do not create any independent transferable intangible asset."

80. We further note that the issue again came up before the Ahmedabad Bench in assessee's own case for Assessment Years 2012-13, 2013-14, 2020- 21 and 2022-23 in Assessee's Own Case. The Coordinate Bench, following the earlier decisions rendered in assessee's own case, upheld the allowability of product registration expenditure as revenue expenditure. The Tribunal observed:

> "The nature of expenditure incurred towards product registration and regulatory approvals remains identical to earlier years and therefore respectfully following the decisions rendered in assessee's own case, the expenditure is allowable as revenue expenditure under section 37(1) of the Act."

81. The Tribunal further observed:

> "The expenditure does not result in acquisition of any independent capital asset but merely facilitates the assessee in carrying on its pharmaceutical business in accordance with statutory regulatory requirements."

82. Having regard to the entirety of facts, the settled legal position governing distinction between capital and revenue expenditure and the consistent decisions rendered by the Ahmedabad Bench of the Tribunal in assessee's own case for Assessment Years 2008-09 to 2010-11 in ITA Nos.3098/Ahd/2013, 126/Ahd/2014, 1272/Ahd/2015, 1547/Ahd/2015, 1366/Ahd/2015 & 1780/Ahd/2015, Assessment Year 2011-12 in ITA Nos.1184/Ahd/2018 & 1225/Ahd/2018 and Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in ITA Nos.1245 to 1248/Ahd/2025, we are of the considered view that the ld. CIT(Appeals) was justified in deleting the ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 40- disallowance made by the Assessing Officer in respect of product registration expenses.

83. We therefore find no merit in the ground raised by the Revenue. The same is accordingly dismissed.

84. Since this Ground of Appeal relating to product registration expenses applies to assessment years 2015-16, 2016-17 and 2017-18, as well where the facts are identical, this ground of the Department is dismissed in light of the above observations for these years as well.

Deduction u/s 80-IC of the Act

85. We shall now take up the next issue arising in the Revenue's appeal for Assessment Year 2014-15 relating to deduction claimed by the assessee under section 80-IC of the Income-tax Act, 1961 in respect of its manufacturing undertaking situated at Baddi. The principal grievance of the Revenue is that the ld. CIT(Appeals) erred in deleting the disallowance/reduction made by the Assessing Officer while recomputing profits eligible for deduction under section 80-IC by attributing substantial portion of profits towards marketing intangibles, brand ownership, selling infrastructure and distribution functions allegedly performed outside the eligible industrial undertaking.

86. The Assessing Officer had observed during the course of assessment proceedings that the profit margins disclosed by the eligible Baddi Unit were exceptionally high and according to him such profitability could not be attributed solely to manufacturing activities undertaken at the eligible ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 41- industrial undertaking. The Assessing Officer formed a view that substantial economic value embedded in the products arose on account of brand exploitation, consumer goodwill, marketing infrastructure, selling network, distribution support and market penetration developed by the assessee company at the corporate level outside the eligible undertaking. Proceeding on the aforesaid premise, the Assessing Officer sought to bifurcate the profits of the Baddi Unit between manufacturing profits and profits attributable to branding and marketing functions and consequently allocated notional royalty and brand usage charges at 15% of sales while recomputing profits eligible for deduction under section 80-IC. Accordingly, for Assessment Year 2014-15, the Assessing Officer reduced the deduction claimed under section 80-IC by attributing such portion of profits towards alleged non- manufacturing and brand-related functions performed outside the eligible undertaking.

87. The ld. CIT(Appeals), however, deleted the aforesaid disallowance / reduction by following the decisions rendered by the Coordinate Bench of the Ahmedabad Tribunal in assessee's own case for earlier assessment years. Aggrieved by the relief granted by the ld. CIT(Appeals), the Revenue is in appeal before us.

88. We have carefully considered the rival submissions, perused the assessment order, appellate findings and the judicial precedents relied upon by the ld. counsel for the assessee.

89. We have also gone through the orders passed by the Ahmedabad Bench of the Tribunal in assessee's own case for Assessment Years 2008-09 to 2010-11 in ITA Nos.3098/Ahd/2013, 126/Ahd/2014, 1272/Ahd/2015, ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 42- 1547/Ahd/2015, 1366/Ahd/2015 & 1780/Ahd/2015, for Assessment Year 2011-12 in ITA Nos.1184/Ahd/2018 & 1225/Ahd/2018 and for Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in ITA Nos.1245 to 1248/Ahd/2025. Upon careful examination of the issue from the perspective of section 80-IC of the Act and the settled principles governing deduction available to eligible industrial undertakings, we are of the considered view that no infirmity can be found in the order passed by the ld. CIT(Appeals) deleting the disallowance of Rs.33,61,69,000/- made by the Assessing Officer.

90. At the outset, it is necessary to appreciate the statutory framework of section 80-IC. The deduction under section 80-IC of the Act is granted in respect of profits and gains "derived from" eligible industrial undertaking engaged in manufacture or production of articles or things in specified geographical regions. The legislative intent behind section 80-IC is to promote industrialization and economic development in backward areas by incentivizing manufacturing activities undertaken in such regions. Therefore, once manufacturing operations are genuinely

carried out by an eligible undertaking and profits arise from such manufacturing activities, the deduction cannot be curtailed merely because the assessee possesses established brands, distribution infrastructure or marketing capabilities at the enterprise level.

91. The approach adopted by the Assessing Officer in the present case, in our considered view, proceeds on a fundamentally erroneous assumption that profits earned by a manufacturing undertaking must necessarily be artificially bifurcated between manufacturing functions and brand value functions even ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 43- in absence of any Statutory mandate permitting such apportionment under section 80-IC. The Income-tax Act does not contemplate any hypothetical segregation of profits attributable to brand ownership once the industrial undertaking itself carries on genuine manufacturing operations and earns profits from sale of products manufactured by it.

92. The Assessing Officer has sought to attribute notional royalty and brand usage charges at 15% of sales on the premise that substantial value addition arose from marketing intangibles and brand reputation. However, no material has been brought on record to demonstrate that the eligible Baddi Unit either paid any royalty or was under any legal obligation to compensate another entity for use of brand or marketing infrastructure. The entire exercise undertaken by the Assessing Officer resulting in reduction of deduction under section 80-IC is therefore based upon purely hypothetical allocation unsupported either by statutory provision or by actual commercial arrangement.

93. We further find that the identical issue now stands squarely covered in favour of the assessee by the consistent decisions rendered by the Ahmedabad Bench of the Tribunal in assessee's own case for earlier years.

94. In Assessee's Own Case pertaining to Assessment Years 2008-09 to 2010-11, the Coordinate Bench examined the very same controversy relating to reduction of deduction under section 80-IC by attributing profits towards marketing intangibles and brand functions. The Tribunal categorically rejected the Revenue's approach and held that once manufacturing activity is genuinely carried out by the eligible undertaking and profits arise from sale of products manufactured therein, deduction under section 80-IC cannot be ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 44- artificially curtailed by imputing hypothetical brand royalty or marketing charges.

95. The Tribunal in the aforesaid decision observed:

> "The profits derived by the eligible undertaking from manufacture and sale of products cannot be artificially bifurcated by allocating notional brand usage charges in absence of any actual payment or legal obligation for such payment."

96. The Tribunal further held:

> "Section 80-IC grants deduction on profits derived from eligible industrial undertaking and does not authorize the Assessing Officer to recompute profits by introducing hypothetical expenditure towards alleged brand value or marketing infrastructure."

97. The Coordinate Bench also observed:

> "Merely because the assessee possesses strong market presence or established brands does not disentitle the industrial undertaking from claiming deduction on profits genuinely arising from manufacturing operations carried out by the eligible unit."

98. The Tribunal further held that the Revenue had failed to establish any separate commercial arrangement under which the eligible undertaking utilized brand or marketing infrastructure belonging to another entity so as to justify notional allocation of royalty expenditure.

99. The aforesaid principle was reiterated by the Ahmedabad Bench in assessee's own case for Assessment Year 2011-12 in Assessee's Own Case. The Tribunal again held that profits derived by the Baddi Unit from manufacturing operations were fully eligible for deduction under section 80- IC and rejected the Revenue's attempt to artificially reduce eligible profits by attributing portions thereof towards marketing intangibles and enterprise- level functions.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 45-

100. The Tribunal specifically observed:

> "The deduction under section 80-IC cannot be reduced merely because the products manufactured by the eligible undertaking are sold under established brands or through organized distribution network developed by the assessee company."

101. The Tribunal further held:

> "In absence of any actual royalty payment or evidence demonstrating diversion of profits from eligible undertaking, no notional adjustment can be made while computing deduction under section 80-IC."

102. We further note that the identical issue again came up before the Ahmedabad Bench in assessee's own case for Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in Assessee's Own Case. The Coordinate Bench, after considering the earlier decisions rendered in assessee's own case, upheld the allowability of full deduction under section 80-IC without any notional reduction towards alleged brand or marketing functions.

103. The Tribunal observed:

> "The Assessing Officer is not justified in reallocating profits of eligible undertaking by imputing hypothetical brand royalty or marketing charges when no such expenditure has actually been incurred by the eligible unit."

104. The Tribunal further observed:

> "The profits earned by the Baddi Unit arise directly from manufacturing operations carried out by the eligible industrial undertaking and therefore qualify for deduction under section 80-IC in entirety."

105. We find that the Revenue has not brought any distinguishing feature on record to demonstrate that the factual matrix involved in the present assessment year differs from the earlier years already adjudicated upon by the Coordinate Bench. The principle of consistency therefore strongly supports the assessee's claim.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 46-

106. We also find merit in the observation of the Coordinate Bench in earlier years that the Revenue itself had accepted the manufacturing character and eligibility of the Baddi Unit for deduction under section 80-IC of the Act. Once that fundamental position stands accepted, profits derived from sale of products manufactured by such undertaking cannot be artificially diluted merely because the assessee as a corporate entity possesses valuable brands or marketing capabilities.

107. The Revenue has also failed to demonstrate that the profit margins declared by the assessee were abnormally inflated by reason of any manipulation or diversion of profits from non-eligible units. Mere existence of high profit margins cannot by itself justify reduction of deduction under section 80-IC particularly in pharmaceutical and healthcare industries where profit margins may substantially vary depending upon product mix, market positioning and operational efficiencies.

108. Having regard to the entirety of facts, the statutory scheme of section 80-IC and the consistent decisions rendered by the Ahmedabad Bench of the Tribunal in assessee's own case for Assessment Years 2008-09 to 2010-11 in 1366/Ahd/2015 & 1780/Ahd/2015, Assessment Year 2011-12 in ITA Nos.1184/Ahd/2018 & 1225/Ahd/2018 and Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in ITA Nos.1245 to 1248/Ahd/2025, we are of the considered view that the ld. CIT(Appeals) was justified in deleting the disallowance/reduction made by the Assessing Officer while recomputing deduction under section 80-IC for Assessment Year 2014-15.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 47-

109. We therefore find no merit in the ground raised by the Revenue. The same is accordingly dismissed.

110. Since this Ground of Appeal relating to deduction u/s 80-IC applies to assessment years 2015-16 and 2016-17 as well where the facts are identical, this ground of the Department is dismissed in light of the above observations for these years as well.

Deduction u/s 80-IC in respect of scrap income

111. We shall now take up the next issue arising in the Revenue's appeal relating to deduction claimed by the assessee under section 80-IC of the Act in respect of scrap income earned by the eligible industrial undertaking situated at Baddi. The grievance of the Revenue is that the ld. CIT(Appeals) erred in directing the Assessing Officer to allow deduction under section 80- IC on scrap income earned by the assessee from manufacturing operations carried out by the eligible undertaking.

112. During the course of assessment proceedings, the Assessing Officer observed that the assessee had included scrap income generated by the Baddi Unit as part of profits eligible for deduction under section 80-IC. The Assessing Officer was of the view that the expression "profits and gains derived from" used in section 80-IC requires existence of direct and immediate nexus between the eligible profits and manufacturing activity carried on by the industrial undertaking. According to the Assessing Officer, although scrap may have arisen during the manufacturing process, the receipts generated from sale of scrap represented merely incidental or ancillary income and not profits directly derived from manufacturing ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 48- operations. Proceeding on the aforesaid reasoning, the Assessing Officer excluded scrap income from the eligible profits while computing deduction under section 80-IC.

113. The ld. CIT(Appeals), however, deleted the disallowance made by the Assessing Officer by following the decisions rendered by the Coordinate Bench of the Ahmedabad Tribunal in assessee's own case for earlier years. Aggrieved by the relief granted by the ld. CIT(Appeals), the Revenue is in appeal before us.

114. We have carefully considered the rival submissions, perused the assessment order, appellate findings and the judicial precedents relied upon by the ld. counsel for the assessee. We have also gone through the orders passed by the Ahmedabad Bench of the Tribunal in assessee's own case for Assessment Years 2008-09 to 2010-11 in ITA Nos.1366/Ahd/2015 & 1780/Ahd/2015, for Assessment Year 2011-12 in ITA Nos.1184/Ahd/2018 & 1225/Ahd/2018 and for Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in ITA Nos.1245 to 1248/Ahd/2025. Upon careful examination of the issue from the perspective of section 80-IC and the settled principles governing interpretation of the expression "derived from", we are of the considered view that no infirmity can be found in the order passed by the ld. CIT(Appeals).

115. We find that the identical issue now stands squarely covered in favour of the assessee by consistent decisions rendered by the Ahmedabad Bench of the Tribunal in assessee's own case for earlier years.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 49-

116. In Assessee's Own Case pertaining to Assessment Years 2008-09 to 2010-11, the Coordinate Bench of the Tribunal specifically examined the allowability of deduction under section 80-IC on scrap income earned by the eligible industrial undertaking. After analyzing the manufacturing process and the nature of scrap generated therefrom, the Tribunal held that scrap income formed integral part of profits derived from industrial undertaking and therefore qualified for deduction under section 80-IC.

117. The Tribunal in the aforesaid decision observed:

> "Scrap generated during the manufacturing process is intrinsically connected with industrial activity carried on by the eligible undertaking and therefore receipts arising from sale of such scrap are eligible for deduction under section 80-IC."

118. The Tribunal further held:

> "The generation of scrap is a direct consequence of manufacturing operations and cannot be treated as independent or incidental source of income divorced from industrial undertaking."

119. The Coordinate Bench also rejected the Revenue's contention that scrap income lacked direct nexus with manufacturing operations by observing:

> "Once the scrap itself arises from the manufacturing activity carried out by the eligible undertaking, the sale proceeds thereof necessarily partake the character of profits derived from such industrial undertaking."

120. The aforesaid principle was reiterated by the Ahmedabad Bench in assessee's own case for Assessment Year 2011-12 in Assessee's Own Case. The Tribunal again held that scrap generated during manufacturing process constitutes operational income directly linked with industrial activity and therefore qualifies for deduction under section 80-IC.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 50-

121. The Tribunal specifically observed:

> "Scrap income generated during the course of manufacture cannot be excluded from eligible profits merely because such receipts arise from sale of residual or by-product material."

122. The Tribunal further held:

> "The immediate source of scrap income is the manufacturing activity itself and therefore the necessary nexus contemplated under section 80-IC stands fully satisfied."

123. We further note that the identical issue again came up before the Ahmedabad Bench in assessee's own case for Assessment Years 2012-13, 2013-14, 2020-21 and 2022-23 in Assessee's Own Case. The Coordinate Bench, after considering the earlier decisions rendered in assessee's own case, upheld the allowability of deduction under section 80-IC on scrap income generated by the Baddi Unit.

124. The Tribunal observed:

> "The scrap generated by the eligible undertaking is an inseparable incident of the manufacturing process and therefore income arising from sale thereof forms part of profits derived from the industrial undertaking."

125. The Tribunal further observed:

> "The Assessing Officer was not justified in excluding scrap income from eligible profits under section 80-IC when the scrap itself arose directly from manufacturing operations carried on by the eligible undertaking."

126. We find that the Revenue has not brought any distinguishing feature on record to demonstrate that the nature of scrap income involved in the present assessment year differs from earlier years already adjudicated upon by the Coordinate Bench. The principle of consistency therefore strongly supports the assessee's claim.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 51-

127. Having regard to the entirety of facts, the settled legal position governing interpretation of section 80-IC and the consistent decisions rendered by the Ahmedabad Bench of the Tribunal in assessee's own case for Assessment Years 2008-09 to 2010-11 in ITA Nos.1366/Ahd/2015 & 1780/Ahd/2015, Assessment Year 2011-12 in ITA Nos.1184/Ahd/2018 & 1225/Ahd/2018 and Assessment Years 2012-13, 2013-14, 2020-21 and 2022- 23 in ITA Nos.1245 to 1248/Ahd/2025, we are of the considered view that the ld. CIT(Appeals) was justified in directing the Assessing Officer to allow deduction under section 80-IC on scrap income earned by the eligible industrial

undertaking. We therefore find no merit in the ground raised by the Revenue. The same is accordingly dismissed.

128. Since this Ground of Appeal relating to deduction u/s 80-IC with respect to scrap income applies to assessment years 2015-16 and 2016-17 as well where the facts are identical, this ground of the Department is dismissed in light of the above observations for these years as well.

Revenue's appeal relating to assessee's claim of deduction at the rate of 100% under section 80-IC of the Act (relevant to assessment year 2016-

17)

129. We shall now take up the next issue arising in the Revenue's appeal relating to the assessee's claim of deduction at the rate of 100% under section 80-IC of the Income-tax Act, 1961 in respect of its eligible industrial undertaking situated at Baddi for Assessment Year 2016-17. The grievance of the Revenue is that the ld. CIT(Appeals) erred in directing the Assessing Officer to allow deduction at the rate of 100% of the profits derived from the eligible undertaking after substantial expansion, allegedly ignoring the ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 52- restriction contained in section 80-IC with regard to the permissible period and rate of deduction.

130. The facts emerging from the assessment records show that the assessee company had claimed deduction under section 80-IC in respect of profits derived from its eligible industrial undertaking situated at Baddi. During the course of assessment proceedings, the Assessing Officer observed that the assessee had already availed deduction under section 80-IC in the earlier years at the rate of 100% and therefore, according to him, upon expiry of the first five years, the assessee was entitled only to deduction at the reduced rate of 30% in terms of the then prevailing legal position laid down by the Hon'ble Supreme Court in CIT v. Classic Binding Industries 96 taxmann.com 405 (SC).

131. The Assessing Officer noted that relying upon the aforesaid judgment in Classic Binding Industries (supra), the assessee itself had restricted its claim of deduction during the assessment proceedings to Rs.55,44,65,939/- being 30% of the profits derived from the eligible undertaking. However, the assessee simultaneously reserved its right to seek deduction at the rate of 100% depending upon the outcome of the review petitions and proceedings pending before the Hon'ble Supreme Court challenging the correctness of the ratio laid down in Classic Binding Industries (supra). The assessee had specifically submitted before the Assessing Officer vide submission dated 24.12.2018 that intervention applications and review petitions had already been filed before the Hon'ble Supreme Court and therefore the assessee reserved its right to claim deduction at the enhanced rate of 100% if the legal position underwent change.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 53-

132. Subsequently, during the pendency of appellate proceedings, the controversy came to be conclusively settled by the larger Bench judgment of the Hon'ble Supreme Court in Principal Commissioner of Income-tax v. Aarham Softronics 412 ITR 623 (SC) decided on 20.02.2019. The assessee accordingly raised Additional Ground No.9 before the ld. CIT(Appeals) claiming deduction at the rate of 100% amounting to Rs.184,82,19,797/- being the entire profits derived from the eligible undertaking at Baddi.

133. The ld. CIT(Appeals), after examining the submissions of the assessee, the assessment order and the subsequent authoritative pronouncement rendered by the Hon'ble Supreme Court in Aarham Softronics (supra), allowed the claim of the assessee. The ld. CIT(Appeals) noted that the Hon'ble Supreme Court in Aarham Softronics (supra) had specifically overruled the earlier judgment rendered in Classic Binding Industries (supra) and categorically held that where an eligible undertaking undertakes substantial expansion within the prescribed period, such expansion itself constitutes a fresh "initial assessment year" entitling the assessee to deduction at the rate of 100% subject only to the overall cap of ten assessment years.

134. The ld. CIT(Appeals) further noted that the Coordinate Bench of the Ahmedabad Tribunal in assessee's own case for Assessment Years 2008-09 to 2010-11 in ITA Nos. 3098/Ahd/2013, 1272/Ahd/2015 & 1547/Ahd/2015 and for Assessment Year 2011-12 had already decided the issue in favour of the assessee. The ld. CIT(Appeals) reproduced the relevant findings of the Coordinate Bench wherein it was held that the Baddi Unit constituted an integrated business undertaking and profits derived therefrom were fully eligible for deduction under section 80-IC.

- 54-

135. The ld. CIT(Appeals), after reproducing extensive portions of the judgment of the Hon'ble Supreme Court in Aarham Softronics (supra), observed that the larger Bench of the Hon'ble Supreme Court had itself acknowledged the error in the earlier decision rendered in Classic Binding Industries (supra) and had clarified that there can be more than one "initial assessment year" within the overall ten-year period contemplated under section 80-IC.

136. The Hon'ble Supreme Court in Aarham Softronics (supra) specifically observed:

> "13. Learned counsel appearing for the assessees pointed out before us that clause (v) of sub-section (8) of Section 80-IC is the concerned provision which provides definition of 'initial assessment year', for the purpose of this very Section, i.e., Section 80-IC, which was not noticed while pronouncing the judgment in CIT v. Classic Binding Industries [2018] 96 taxmann.com 405/257 Taxman 324 (SC) case. We find substance in this submission of the assessees. We have no hesitation to accept this mistake which occurred in the aforesaid judgment."

137. The Hon'ble Supreme Court further held:

> "19. Having examined the scheme in the aforesaid manner, we arrive at the conclusion that the definition of 'initial assessment year' contained in clause (v) of sub-section (8) of Section 80-IC can lead to a situation where there can be more than one 'initial assessment year' within the said period of 10 years."

138. The Hon'ble Supreme Court thereafter explained the legislative object underlying section 80-IC in the following terms:

> "20. ... It would mean that even when an old unit completes substantial expansion, such a unit also becomes entitled to avail the benefit of Section 80-IC. If that is the purpose of the legislature, we see no reason as to why 100% deduction of the profits and gains be not allowed to even those units who had availed this deduction on setting up of a new unit and have now invested huge amount with substantial expansion of those units."

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 55-

139. The ld. CIT(Appeals), following the aforesaid pronouncement, held that the assessee's Baddi Unit having undertaken substantial expansion was legally entitled to claim deduction at the rate of 100% and accordingly directed the Assessing Officer to allow deduction under section 80-IC at the enhanced rate if the total income computed under the normal provisions remained positive.

140. Before us, the ld. Departmental Representative relied upon the assessment order, whereas the ld. counsel for the assessee strongly supported the findings recorded by the ld. CIT(Appeals) and submitted that the controversy now stands conclusively settled by the judgment of the Hon'ble Supreme Court in Aarham Softronics (supra). It was further submitted that the declaration of law by the Hon'ble Supreme Court operates retrospectively and therefore governs the year under consideration as well. Reliance was also placed upon the dismissal of Revenue's SLP by the Hon'ble Supreme Court in Pr. CIT v. SBS Biotech following Aarham Softronics (supra).

141. We have carefully considered the rival submissions, perused the assessment order, appellate findings and the judicial precedents placed before us. Upon careful examination of the statutory framework of section 80-IC and the law declared by the Hon'ble Supreme Court, we are of the considered view that no infirmity can be found in the order passed by the ld. CIT(Appeals).

142. The controversy involved in the present appeal is no longer res integra and now stands conclusively settled by the larger Bench judgment of the Hon'ble Supreme Court in Aarham Softronics (supra). The Hon'ble Supreme Court, after exhaustive analysis of section 80-IC, the legislative intent and the ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 56- definition of "initial assessment year", categorically held that substantial expansion undertaken by an eligible industrial undertaking itself gives rise to a fresh "initial assessment year" entitling the assessee to claim deduction at the rate of 100% subject only to the overall cap of ten assessment years prescribed under section 80-IC(6).

143. We further note that the Hon'ble Supreme Court has specifically recognized that section 80-IC contemplates two separate triggering events capable of constituting "initial assessment year", namely establishment of a new industrial undertaking and substantial expansion undertaken by an existing undertaking. Therefore, once substantial expansion is carried out in accordance with statutory requirements, the assessee becomes entitled to deduction at the rate of 100% from the year of expansion.

144. The Revenue has not brought any material on record to dispute the factual position that the eligible Baddi Unit had in fact undertaken substantial expansion during the relevant period. The dispute raised by the Revenue is therefore purely legal in nature and the same stands fully answered against the Revenue by the binding judgment of the Hon'ble Supreme Court in Aarham Softronics (supra).

145. Having regard to the entirety of facts we are of the considered view that the ld. CIT(Appeals) was fully justified in directing the Assessing Officer to allow deduction under section 80-IC at the rate of 100% in respect of profits derived from the eligible industrial undertaking at Baddi. Accordingly, we find no merit in the ground raised by the Revenue and the same is dismissed.

ITA Nos. 1845 to 1848/Ahd/2025 & 1867 to 1870/Ahd/2025 Asst. Years-2014-15 to 2017-18

- 57-

146. Accordingly, Revenue's appeal is dismissed for assessment years 2014-15, 2015-16, 2016-17 and 2017-18.

147. In the combined result, all the appeals filed by the assessee are allowed and the Revenue's appeal are dismissed for all the assessment years under consideration.

This Order pronounced in Open Court on

Sd/- Sd/-
(DR. BRR KUMAR) (SIDDHARTHA NAUTIYAL
VICE PRESIDENT JUDICIAL MEMBER
Ahmedabad; Dated 14/05/2026
TANMAY, Sr. PS TRUE COPY
/Copy of the Order forwarded to :
1. / The Appellant
2. / The Respondent.
3. / Concerned CIT
4. ( ) / The CIT(A)-

5. , , / DR, ITAT, Ahmedabad

6. / Guard file.

/ BY ORDER, / ¡ (Dy./Asstt.Registrar) ,
/ ITAT, Ahmedabad

1. Date of dictation 14.05.2026 (Hon'ble Member dictated on his dragon software)

2. Date on which the typed draft is placed before the Dictating Member 14.05.2026

3. Other Member.....

4. Date on which the approved draft comes to the Sr.P.S./P.S 14.05.2026

5. Date on which the fair order is placed before the Dictating Member for pronouncement 14.05.2026

6. Date on which the fair order comes back to the Sr.P.S./P.S 14.05.2026

7. Date on which the file goes to the Bench Clerk 14.05.2026

8. Date on which the file goes to the Head Clerk.....

9. The date on which the file goes to the Assistant Registrar for signature on the order.....

10. Date of Dispatch of the Order.....