

The Commissioner of Income Tax-III, Hyderabad v. M/s. Sanghi Textiles Limited, Hyderabad

ITTA No. 551 of 2010

ITTA No. 551 of 2010 (Telangana HC, decided 30.01.2026) | 2026-01-30

Applying the 'purpose test' in Sahney Steel and Ponni Sugars, Rs. 4.60 crore received from the Government of Assam under an MoU to take over and run a sick paper mill held taxable as a revenue receipt where the assessee produced no evidence of utilization for capital assets, expansion, or loan repayment.

Income-tax Act, 1961: sections 4, 28, 37(1) and 260A

High Court for the State of Telangana | 2-judge bench (Division Bench) | P. Sam Koshy, J. | Suddala Chalapathi Rao, J.

Assessment years: 1996-97, 1997-98

Restores original assessment order dated 29.03.2000 for AYs 1996-97 and 1997-98

On page 1 of the PDF scan, the docket number is partially OCR-garbled as 'No: 1 OF 10', while page 2 and page 13 confirm the exact docket number as 'ITTA.No.551 of 2010'.

01 FACTS OF THE CASE

M/s Sanghi Textiles Limited entered into a Memorandum of Understanding and Lease Agreement dated 01.03.1995 with the Government of Assam to take over and run a sick paper mill, Ashok Paper Mills (Assam) Ltd. Under the package, the assessee received Rs. 4.60 crore described as 'promoters' contribution' from the Assam Government (in addition to Rs. 2.30 crore margin money for working capital and Rs. 10.40 crore towards cash loss for the first two years). By assessment order dated 29.03.2000 for AYs 1996-97 and 1997-98, the DCIT, Central Circle-I, Hyderabad taxed the Rs. 4.60 crore receipt on revenue account. The CIT(A) deleted the addition on 19.03.2001 treating it as a capital receipt for revival of a sick unit, and the ITAT Hyderabad Bench 'A' affirmed the deletion on 19.06.2009 in ITA No. 346/Hyd/2004.

Source: [Pages 2-4 of 13 \(Paragraphs 1-6\) \(20260130_HBHC010209772010.pdf\)](#)

02 DISCUSSION BY THE HON'BLE COURT

Applying the 'purpose test' laid down by the Supreme Court in *Sahney Steel & Press Works Ltd. v. CIT*, (1997) 7 SCC 764, *CIT v. Ponni Sugars and Chemicals Ltd.*, (2008) 174 Taxman 87 (SC), and *CIT v. Madras Auto Service (P) Ltd.*, (1998) 99 Taxman 575 (SC), the Division Bench held that the character of a government grant or subsidy is determined by the purpose for which it is given and utilized, not by its nomenclature. Examining the record, the Court found that the MoU contained no covenant earmarking the Rs. 4.60 crore for capital investment, purchase of machinery, or term-loan repayment, nor did the assessee produce any evidence showing that the sum was spent on infrastructural development, capital repairs, or setting up a new unit or deducted from the cost of fixed assets. Because the sum was utilized for running the leased paper mill business, it constituted a taxable revenue receipt.

Source: [Pages 6-11 of 13 \(Paragraphs 10-19\) \(20260130_HBHC010209772010.pdf\)](#)

03 JUDICIAL DECISION

Answering the substantial question of law in favour of the Revenue, the Telangana High Court allowed ITTA No. 551 of 2010, set aside the orders of the ITAT dated 19.06.2009 and the CIT(A) dated 19.03.2001, and restored the assessment order dated 29.03.2000.

Source: [Pages 11-12 of 13 \(Paragraph 20\) \(20260130_HBHC010209772010.pdf\)](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Revenue; ITAT and CIT(A) orders set aside and assessment order dated 29.03.2000 taxing Rs. 4.60 crore as revenue receipt restored.

Source: [Pages 11-12 of 13 \(Paragraph 20\) \(20260130_HBHC010209772010.pdf\)](#)

05 AKHB REVIEW POINT

AKHB analysis: Labelling a State Government financial disbursement as 'promoters' contribution' under a sick-unit revival MoU does not automatically make it a capital receipt under Ponni Sugars ((2008) 174 Taxman 87 (SC)) unless the taxpayer substantiates through covenants and accounts that the grant was earmarked and utilized for capital asset creation or capital loan repayment rather than operating cash-flow support.

Source: [Full judgment PDF \(13 pp.\)](#)

SOURCE & VERIFICATION

[Original judgment PDF \(20260130_HBHC010209772010.pdf\)](#)

Reviewed from the complete 13-page official High Court judgment PDF (20260130_HBHC010209772010.pdf, SHA-256: 6ac9712be47ce06d2a14db33b4bba14a2861be59a5f3518a10559ee6b1339266).

Supplied source-reviewed note retained; original bytes and identity validation checked in this release. Substantive re-review is not claimed for this record.

Open cited source rendition

Primary source verified page-by-page (13 physical pages, 502,078 bytes, SHA-256:

6ac9712be47ce06d2a14db33b4bba14a2861be59a5f3518a10559ee6b1339266). Cloud Google Drive File ID:

16gL52YN3bvXUbZkyAsekhsv0JhWJ2HTk

(<https://drive.google.com/file/d/16gL52YN3bvXUbZkyAsekhsv0JhWJ2HTk/view>).

STATUTORY SCOPE

Refers to the Income-tax Act, 1961 and allied statutory rules/circulars as applicable to the relevant assessment years.

LATER TREATMENT

Source checked 2026-10-18. No subsequent Supreme Court reversal or stay is recorded in the source judgment text.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible.

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