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: section 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

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.

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02 DISCUSSION BY THE HON'BLE COURT

Revenue argued that no MoU covenant earmarked the Rs.4.60 crore for capital investment and no evidence established capital use. The Court's own reasoning focused on the absence of material proving use for a new unit, expansion, infrastructure, repairs or repayment of loans for a new unit. Applying the purpose test discussed in Sahney Steel and referring to Madras Auto Service and Ponni Sugars, it rejected the assessee's unsupported revival-use contention. It held the ITAT and CIT(A) orders perverse and answered the substantial question in Revenue's favour.

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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.

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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.

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05 EXPERT COMMENTS

AKHB EXPERT COMMENTS — editorial analysis, distinct from the Court's findings.

Revival purpose required supporting material — The assessee's description of the payment as promoters' contribution for reviving a sick mill did not establish capital character on this record. The Court relied on the absence of evidence connecting the amount to the claimed capital uses. The practical issue was therefore the demonstrated purpose and use of the particular receipt, not simply the industrial distress of the recipient or the Government's participation.

Keep the package components separate — The source separately identifies Rs.4.60 crore promoters' contribution, Rs.2.30 crore working-capital margin money and Rs.10.40 crore cash-loss support. The question decided concerns the first amount. Treating the entire revival package as a single adjudicated receipt would obscure that boundary. The MoU, disbursement terms and evidence of utilization would need to support the characterization sought for each relevant component.

Consequence and limits — The Court restored the assessment, rather than remitting the issue for another evidentiary opportunity. The result is Revenue's success for the specified receipt and assessment years. This order should not be read as declaring every sick-unit revival payment revenue in nature, or as an independent deduction ruling under section 37. Its conclusion follows the evidentiary deficiency identified in this dispute.

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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).

All 13 original pages read and visually inspected; all five panels audited.

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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 2026-10-21. Subsequent treatment has not been independently verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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