

Indore Malwa United Mills Ltd., Indore v. State of Madhya Bharat and Others

Civil Appeal No. 1013 of 1963

[1965] 1 SCR 559 | 1964-10-01

Historical industrial tax: money authorisedly lent to managing agents and later irrecoverable was a trading loss incidental to the textile company's business.

Indore Industrial Tax Rules, 1927: section 3 | Indian Income-tax Act, 1922: section 10(2) (comparative principle)

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1941

Historical Indore industrial-tax regime

The Court did not decide a new mixed fact-and-law argument that the Indore Rules covered only cotton-mill income and excluded money-lending activity; it proceeded on an assumed similarity to the 1922 Act for trading-loss purposes.

01 FACTS OF THE CASE

Indore Malwa United Mills manufactured textiles and was authorised to borrow for that business and invest funds in loans. Board resolutions permitted investment of surplus funds with its managing agents at six per cent. The agents borrowed large sums from outsiders in the company's name, entered them in the company books and placed funds with themselves, periodically returning sums before annual meetings and withdrawing again afterward; the shareholders knew and approved the transactions. After the managing-agent company entered liquidation in 1933, the assessee claimed Rs.49,13,316 as bad debt and trading loss for assessment year 1941. The item before the Supreme Court was Rs.42,63,090-14-7, which the authorities and High Court disallowed as outside the textile business.

Source: [Borrowing authority, managing-agent transactions and disputed loss: SCR pp.559-561 / PDF pp.1-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court refused to entertain for the first time the respondents' argument that the Indore Rules taxed only cotton-mill activity and excluded a money-lending loss, because that mixed question could have required evidence. It therefore proceeded on the basis that the trading-loss principle did not differ from the 1922 Act. Applying Badridas Daga, it asked whether accepted commercial practice and trading principles made the loss arise from and be incidental to business. The authorised borrowings created company obligations to outsiders, and the authorised loans to the managing agents created debts owed to the company. Both were recorded through proper commercial entries. The agents' later failure made the debt irrecoverable; the fact that funds may have exceeded immediate business needs did not take the authorised transactions outside business. Any deception lay in temporarily restoring the accounts before meetings, not in the legal existence of the borrowing and lending obligations.

Source: [Scope limitation, incidental-loss test and legal obligations: SCR pp.562-564 / PDF pp.4-6](#)

03 JUDICIAL DECISION

The Court held that the irrecoverable debt was a trading loss incidental to the assessee's business and deductible in computing its profit for the assessment year. It allowed the appeal and awarded the assessee costs in the Supreme Court and the High Court.

Source: [Deductible trading-loss holding and operative relief: SCR p.564 / PDF p.6](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. On the basis on which the Court proceeded, the authorised managing-agent loan became a business debt and its irrecoverability produced a deductible trading loss. The Court did not decide whether the historical Indore Rules independently excluded the activity as outside cotton-mill industry income.

Source: [Assessee outcome and operative allowance: SCR p.564 / PDF p.6](#)

05 AKHB REVIEW POINT

AKHB analysis: a business-loss file should establish corporate authority, the source and legal ownership of funds, accounting treatment, debtor obligation, business connection and the event proving irrecoverability. Transactions with managing agents or related persons require especially clear approvals and contemporaneous records. Before using this historical principle today, separately test the current bad-debt conditions, business-purpose rules and related-party provisions.

Source: [AKHB analysis based on the authorised-obligation and incidental-loss reasoning](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Full 6-page SCR source file read and visually inspected; the editorial headnote spanning PDF pp.1-2 was separated from Subba Rao J.'s unnumbered opinion beginning on PDF p.2.

Open cited source rendition

Exact source bytes, SHA-256 and six-page count match catalogue asset 1965_1_559_564; all pages were read and visually inspected.

The report verifies Civil Appeal No. 1013 of 1963, the 1 October 1964 decision date and the three-member bench.

The source distinguishes the Rs.49,13,316 total bad-debt and trading-loss claim from the Rs.42,63,090-14-7 item actually in issue.

The Court expressly declined to decide the respondents' new industry-scope argument because it had not been raised below and could have required evidence.

STATUTORY SCOPE

This decision applies section 3 of the Indore Industrial Tax Rules, 1927 for assessment year 1941 while proceeding on an assumed similarity to the Indian Income-tax Act, 1922. Present bad-debt and business-loss provisions have not been checked.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and present statutory applicability have not been comprehensively checked; no current citator clearance is represented.

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