

M/s Chillies Exports House Ltd. v. Commissioner of Income Tax

CA 3637/1983 / CA 8017/1995 / CA 15346/1996

[1997] 3 SCR 907 | 1997-04-22

M/s Chillies Exports House Ltd. v. Commissioner of Income Tax

Two-judge bench | S.C. Agrawal, J. | K.S. Paripoornan, J.

Assessment years: 1974-75 (CA 3637/1983), 1976-77 (CA 8017/1995), 1977-78 (CA 15346/1996)

Historical Finance Acts remand; no final 55% entitlement

This is an industrial-company classification case under annual Finance Acts, not section 35B. All three appeals succeeded only to obtain de novo High Court consideration; the 55% rate was not finally awarded. Outsourced fumigation must be considered with the other operations, but qualification remains open. The headnote's statutory numbers conflict with the judicial text; the 1977 provision alone was independently cross-checked. Historical rates, current law and comprehensive later treatment are not certified.

01 FACTS OF THE CASE

The same public limited company exported chillies to the USA, USSR and Ceylon. It bought chillies, sorted and graded them to Agmark specifications, selected export quality, clipped and stemmed them and had them fumigated with methyl bromide under expert technical supervision. The contracted fumigation, paid for by the assessee, was carried out by M/s Mysodet Pvt. Ltd., Bangalore (paragraphs 1 and 4–5, physical pages 3 and 5–6).

The company claimed the historical concessional tax treatment at 55% as an industrial company engaged in processing goods. The three appeals concern AYs 1974-75, 1976-77 and 1977-78. In each, the Madras High Court had followed its 8 December 1977 decision concerning AY 1971-72. That earlier reasoning excluded the outsourced fumigation activity and treated the assessee's remaining operations as insufficient (paragraphs 2–5, physical pages 3–6).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

The Court required consideration of the cumulative operations that made the chillies suitable or more suitable for the export market. The High Court could not leave fumigation out merely because a contractor performed it on the assessee's behalf. That circumstance did not resolve whether the business involved processing (paragraph 8, physical pages 11–12).

The Court considered the discussion of processing in Chowgule, the later cold-storage decision and other authorities, together with CBDT Circular 347 of 7 July 1982 on outsourced book-publishing activities. The circular and those other cases were comparative materials, not facts about this taxpayer or an independent section 104 ruling. It rejected the suggestion that the coordinate cold-storage decision necessarily departed from Chowgule. It nevertheless left the technical comparison between refrigeration/preservation and positive fumigation, and the cumulative effect of these operations, for deeper investigation (paragraphs 6–8, physical pages 7–12).

Technical assistance might be needed to determine the nature and degree of changes involved. The conclusion whether this company was engaged in processing goods depended on all relevant material; the Court did not substitute a final affirmative industrial-company finding (paragraph 8, physical pages 11–12).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

All three appeals were allowed, the impugned High Court judgments were set aside and the matters were remitted to the High Court for de novo consideration according to law. There was no order as to costs. The Supreme Court did not finally grant the 55% rate or determine the tax payable (paragraphs 8–9, physical page 12).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee procedurally; entitlement remains open

All three appeals allowed for High Court reconsideration; no costs

Reasoned remand, not final industrial-company classification or tax concession

AY 1971-72 is the earlier precedent year, not a fourth appeal disposed of here; this is not a section 35B case or an automatic exemption for all outsourced processing.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Document the whole production or preparation sequence, including contract operations performed for and paid for by the taxpayer, and obtain technical evidence of what each step changes. Outsourcing alone is not a reason to omit an activity from the analysis; it also does not establish that every trading business satisfies a processing definition.

This judgment directs a factual and legal reconsideration under particular annual Finance Acts. The 55% figure is the historical relief sought, not a present rate or relief finally granted here. The judgment's paragraph 2 identifies sections 2(8)(c), 2(9)(c) and 2(7)(c) for the respective years, contrary to abbreviated numbers in the headnote. The bounded Department check confirms section 2(7)(c) for the Finance (No. 2) Act, 1977 and its mainly-engaged definition with an income-based Explanation; this does not adjudicate the assessee's figures or certify the other Acts' complete schedules. No current-law or comprehensive later-treatment conclusion is supplied.

Source: See the proposition-specific paragraph and PDF-page references below.

DETAILED DISPOSITION AND CONNECTED GROUPS**Appeal groups**

1.

Case numbers: CA 3637/1983

Pdf pages: 3; 4; 12

Disposition: Allowed; High Court judgment set aside and remitted

Scope: AY 1974-75

2.

Case numbers: CA 8017/1995

Pdf pages: 3; 4; 12

Disposition: Allowed; High Court judgment set aside and remitted

Scope: AY 1976-77

3.

Case numbers: CA 15346/1996

Pdf pages: 4; 12

Disposition: Allowed; High Court judgment set aside and remitted

Scope: AY 1977-78

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal-year mapping and statutory numbering discrepancy

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4

Paragraphs: Paragraphs 1–3 and editorial headnote

Source role: reported metadata and judicial text

2.

Topic: Actual chillies operations and outsourced fumigation

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: Paragraphs 4–5

Source role: judicial text

3.

Topic: Comparative processing precedents and quoted book-publishing circular

Source url: [Open cited source](#)

Pdf pages: 7; 8; 9; 10

Paragraphs: Paragraph 6 and reproduced circular

Source role: judicial text with quoted precedent

4.

Topic: Revenue's cold-storage comparison and Court's totality analysis

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12

Paragraphs: Paragraphs 7–8

Source role: judicial text

5.

Topic: High Court remand and costs

Source url: [Open cited source](#)

Pdf pages: 12

Paragraphs: Paragraphs 8–9

Source role: judicial text

6.

Topic: Independently checked 1977 statutory identity and definition

Source url: [Open cited source](#)

Paragraphs: Section 2(1), 2(7)(c) and its Explanation; Finance (No. 2) Act, 1977 identifier

Source role: bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

K.S. Paripoornan, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Finance Act, 1974; Finance Act, 1976; Finance (No. 2) Act, 1977 (income-tax rates and industrial-company definition)

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Finance Act, 1974, section 2(8)(c) and quoted First Schedule rate extract; Finance Act, 1976, section 2(9)(c) as identified in judgment paragraph 2; Finance (No. 2) Act, 1977, section 2(7)(c); independently checked in Department text; Finance (No. 2) Act, 1971, section 2(6)(c) (earlier High Court case only); Central Sales Tax Act, section 8(3)(b) and rule 13 (quoted Chowgule precedent only)

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 12 PDF pages; SHA-256

2146d3a3c7e096dab6ee8a3df950cfb7476b5798831743070b8180341924fbe6. Original bytes preserved.

Complete judicial text paragraphs 1–9, physical pages 3–12/SCR 909–918; quoted precedents and CBDT circular distinguished from the Court's remand analysis.

Open cited source rendition

The substantive issue is the industrial-company definition under annual Finance Acts, not section 35B. Section 104 appears in a reproduced CBDT circular concerning book publishers; no section 104 liability is decided here.; The headnote uses section 2(7)(c) for 1976 and 2(6)(c) for 1977; judicial paragraph 2 prints 2(9)(c) and 2(7)(c), respectively. Images of physical pages 1 and 4 were checked. The 1977 number is independently confirmed by the official Department rendition; the 1976 citation is attributed to paragraph 2, not represented as a separately checked full Act.; The historical 55% claim is not a new general rate for industrial companies, and the Court did not grant that rate on the merits. The quoted Schedule extract is not the full rate computation.; The company is momentarily called the same firm in paragraph 1 but is expressly identified as a public limited company. No partnership status is inferred.; AY 1971-72 supplied the earlier High Court reasoning; only the three later assessment years were before the Supreme Court in this batch.; The contractor is printed Mysodet in the judicial text (physical pages 6 and 11), though the headnote/OCR varies. Identity is used only for the contract-operation fact.; Chowgule, cold-storage authorities and Circular 347 are materials discussed in the judgment; they have not been separately reviewed here for their complete scope or later treatment.; Paragraph 8 distinguishes possible positive action in fumigation but still orders investigation. It is not a conclusive holding that every fumigation process qualifies as manufacture or processing.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial and statutory treatment has not been verified. Only the expressly identified bounded statutory checks are claimed; no current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 12

SHA-256: 2146d3a3c7e096dab6ee8a3df950cfb7476b5798831743070b8180341924fbe6

official department hosted historical statutory text

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.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.