

Commissioner of Income Tax, Madurai etc. v. M/s. Saravana Spinning Mills Pvt. Ltd.

Civil Appeal Nos. 7604–7605 of 2005 / Civil Appeal No. 7606 of 2005 / Civil Appeal Nos. 7597–7598 of 2005 / Civil Appeal No. 7596 of 2005 / Civil Appeal No. 7599 of 2005 / Civil Appeal No. 7603 of 2005

[2007] 8 SCR 944 | 2007-08-10

Whether replacement and modernisation expenditure on independently functioning textile-mill machines qualified as current repairs under the historical section 31(i).

31(i) | 37(1)

Two-judge bench | S.H. Kapadia, J. | B. Sudershan Reddy, J.

Assessment years: 1993-94

Section 31 disallowance; no section 37 remand here

The batch rejects current-repair deduction for the recorded independent-machine replacements. Section 37 applicability is expressly reserved, and other section 37 appeals are only said to be dealt with separately. The Ramaraju remand described in the checked later Mangayarkarasi passage is not relief in Saravana. Component repairs and exceptional replacement situations require their own facts. The cover misspells the party name. Current law and comprehensive later treatment remain unverified.

01 FACTS OF THE CASE

The lead yarn manufacturer claimed modernisation and replacement expenses of Rs. 97,95,755 for the accounting year ending 31 March 1993 and Rs. 77,84,047 for the year ending 31 March 1994. The narrated AY 1993-94 assessment concerned three replacement ring frames costing Rs. 23,99,855. It argued that the whole textile mill was one plant and each replaced machine was merely a component. The AO regarded each ring frame as a separate functioning machine and rejected the deduction (paragraphs 2–4).

The CIT(A), Tribunal and High Court accepted the integrated-process approach and allowed the expenditure as revenue/current repair. The common litigation also involved other assesseees and machines, including simplex and doubling machines, cone winders and card-conversion equipment. The Supreme Court used Saravana's facts as the lead; the lead amounts must not be assigned to every companion appeal (paragraphs 5–8).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court examined the manufacturing stages rather than treating operational connection as conclusive. Each department produced a different output and contained machines with independent functions. Repair or replacement of a component such as an autoleveler could preserve the carding machine; replacing a whole independently functioning ring frame substituted one asset for another. The entire textile mill was not a single machine merely because the successive processes were connected (paragraphs 9–10).

Section 31(i) required expenditure to preserve and maintain an existing asset, rather than bring a new asset or advantage into existence. Revenue character alone did not establish current repairs. The lower authorities applied the wrong test; the Court followed the repair test discussed in *Ballimal Naval Kishore* and *New Shorrocks*. In the lead case the whole ring frames had been replaced, and the balance sheet described purchase of a new asset (paragraphs 11–12).

Mahalakshmi Textile Mills concerned replacement of worn parts through an improved system when old-type parts were unavailable. The Court distinguished that situation and mentioned limited replacement exceptions, including unavailable old parts or parts used for 50–60 years. These observations were not an automatic age-based allowance or a finding that the present replacements met an exception (paragraph 13).

Section 37 operates through its own conditions, including exclusion of capital expenditure and of expenditure falling within sections 30–36. The Court expressly declined to decide section 37(1) applicability and said wrongly tagged section 37 appeals would be dealt with separately. It rejected the attempt to preserve the present allowance merely because the lower authorities had described the expenditure as revenue; that description did not satisfy section 31's current-repair test (paragraphs 14–15).

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

03 JUDICIAL DECISION

The Department's batch of civil appeals was allowed without costs. The assesseees were held not entitled to the claimed section 31(i) allowance under the relevant historical provision. This judgment contains no section 37 remand or affirmative section 37 allowance; its statement about separately deciding other appeals must not be converted into an order in this batch (paragraphs 14–16).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on section 31(i)

Department's batch of appeals allowed; section 31(i) allowance rejected; no costs

Final on current repairs in this batch; section 37(1) applicability expressly left undecided

Distinguish replacement of an independent machine from repair or replacement of a component preserving the asset. No universal prohibition of every replacement, no depreciation computation, and no section 37 remand or allowance in this judgment.

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

05 AKHB REVIEW POINT

Identify the asset actually repaired or replaced, its independent function, what remains, and why old components cannot be used. Do not start and end with a revenue-versus-capital label or assume that an integrated production line is one indivisible asset. The special replacement observations require evidence and do not create a mechanical 50–60-year safe harbour.

Keep separate case dispositions separate. The independently checked later Mangayarkarasi paragraphs 14–22 apply Saravana to section 31 and then independently reject section 37 deduction on that later record. Mangayarkarasi's paragraph 18 describes the Ramaraju section 37 remand; this note has not independently reviewed Ramaraju or its post-remand result. Neither that history nor Mangayarkarasi's final section 37 holding is Saravana's operative relief.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, appeal list and judicial boundary

Source url: [Open cited source](#)

Pdf pages: 1; 5

Paragraphs: Cover; jurisdiction; 1–2

Source role: reported metadata and judicial text

2.

Topic: Historical provision, lead facts and lower proceedings

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8

Paragraphs: 3–8

Source role: judicial text

3.

Topic: Asset identity and component-repair examples

Source url: [Open cited source](#)

Pdf pages: 9; 10

Paragraphs: 9–10

Source role: judicial text

4.

Topic: Current-repair test and independent ring-frame replacement

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12; 13

Paragraphs: 11–12

Source role: judicial text

5.

Topic: Replacement exceptions and section 37 reservation

Source url: [Open cited source](#)

Pdf pages: 13; 14; 15

Paragraphs: 13–15

Source role: judicial text

6.

Topic: Operative section 31 disposition

Source url: [Open cited source](#)

Pdf pages: 15

Paragraphs: 16

Source role: judicial text

7.

Topic: Bounded later application, separate section 37 holding and Ramaraju history

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12; 13; 14

Paragraphs: 14–22

Source role: bounded later judicial comparison

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

31(i): Current-repair deduction under the text applicable to the stated accounting years; the later Explanation is expressly distinguished in paragraph 12.

37(1): Separate residuary test discussed, but applicability expressly not decided in this batch; the request to sustain relief merely on lower findings of revenue character was rejected.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.H. Kapadia, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED EARLIER COMPARISONS AND THEIR LIMITS

1.

Case: Commissioner of Income Tax v. Sri Mangayarkarasi Mills (P) Ltd.

Relationship: Later judicial application and separate section 37 result, independently checked within stated bounds

Asset id: 2009_10_1187_1200

Source url: [Open cited source](#)

Actually read: Physical pages 10–14; complete paragraphs 13–22 and concluding portion of paragraph 12. Comparison uses paragraphs 14–22.

Finding: Applies Saravana's independent-machine/current-repair analysis; separately determines section 37 against that assessee and restores the AO's disallowance. Paragraph 18 recounts the Ramaraju remand as earlier litigation history.

Scope limit: Not a full later-treatment audit or an independently verified Ramaraju outcome. No automatic overruling claim.

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 15 PDF pages; SHA-256

38162fd7809554974874228b9338659b300bde114431fac3b3cca205ceed978. Original bytes preserved.

Judicial paragraphs 1–16 on physical pages 5–15 (SCR 948–958). Pages 1–4 and page 5 above the author line are reporter/editorial material. No adjacent judgment.

[Open cited source rendition](#)

The lead facts expressly name AY 1993-94 and accounting years ending 31 March 1993 and 31 March 1994. No separate numbered assessment-year allocation is invented for the other lead or companion appeals.

The source cover misspells Spinning as SPININNG; the displayed title uses the ordinary spelling. The source PDF is unchanged.; The report lists eight appeals: 7604–7605, 7606, 7597–7598, 7596, 7599 and 7603 of 2005. No omitted number is supplied.; Rs. 23,99,855 is the narrated cost of three ring frames, not either annual total modernisation claim. The lead amounts and accounting periods are not allocated to all companions.; Paragraphs 14–16 expressly separate section 37 and the operative section 31 result. There is no remand in this judgment.; The text applies the historical section 31(i) and says its Explanation was inserted later; no present statutory version is certified.; Mangayarkarasi was independently read only in the stated bounds. Ramaraju and the other quoted earlier authorities were not independently reviewed for this note.

STATUTORY SCOPE

Current statutory equivalence and 2025 Act applicability have not been verified.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent judicial or statutory audit. Only actually checked comparisons are separately identified and bounded; no current-law or Income-tax Act, 2025 certification.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 15](#)

SHA-256: 38162fd7809554974874228b9338659b300bde114431fac3b3cca205ceed978

[bounded comparison judgment - PDF pages: 14](#)

SHA-256: 59d0f97cafea4fb4b99e62383c0a8e1f8a995eb9be697de43c4a5c888535b054

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