

M/s. Rotork Controls India (P) Ltd. v. Commissioner of Income Tax, Chennai

Civil Appeal Nos. 3506-3510 of 2009 / Civil Appeal Nos. 3511-3524 of 2009

[2009] 8 S.C.R. 1152 | 2009-05-12

Whether estimated product-warranty obligations arising from sales of sophisticated valve actuators were deductible under section 37, or were merely contingent because customers had not yet made claims.

37(1)

Two-judge bench | S.H. Kapadia, J. | Aftab Alam, J.

Assessment years: 1991-92, 1992-93, 1993-94, 1994-95

01 FACTS OF THE CASE

Rotork sold valve actuators, principally to BHEL, with a standard undertaking to rectify or replace qualifying defective parts free of charge within twelve months of commissioning or eighteen months of despatch, whichever was earlier. The lead appeals concerned AYs 1991-92 to 1994-95. For AY 1991-92 it provided Rs. 10,18,800 at 1.5% of turnover and reversed Rs. 5,00,246 as excess, leaving a net deduction claim of Rs. 5,18,554 (paragraphs 3-4).

The Assessing Officer and CIT(A) rejected the provision as contingent. The Tribunal allowed it, relying on the nature of the goods, warranties integral to sales, earlier experience and the accounting method. Its earlier history was not uniformly favourable: for AY 1985-86 it had rejected a claim where unadjusted excesses caused the provision account to grow. That defect was absent in the years now in issue (paragraph 4).

The Madras High Court reversed on 5 February 2007 because it considered no liability crystallised at sale. Rotork brought five appeals. Fourteen Revenue companion appeals were heard with them; the Court states that the assessee had succeeded below in those matters, but does not supply their separate transaction details or assessment years (paragraphs 4 and 17-19; jurisdiction block).

Source: [reported judgment / paragraphs 3-4 / PDF pages 7, 8, 9 / judgment](#); [reported judgment / paragraphs 17-19 / PDF pages 27, 28 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court required three conditions for recognition of a provision: a present obligation from a past event, a probable outflow of resources to settle it, and a reliable estimate. An obligation must arise independently of the enterprise's future conduct. For numerous similar obligations, probability is assessed for the class as a whole; the judgment cautions that a single-item transaction may stand differently (paragraphs 10-12).

The historical facts satisfied that test. Rotork had long sold large numbers of sophisticated actuators; defects occurred in some units each year; customers would not buy without warranties; and the warranty obligation was embedded in the sale price. The sales and established defect experience supplied the obligating events. The Court did not infer deductibility merely from an accounting entry or the label provision (paragraphs 12-13).

The Court contrasted cash recognition, recognition only when a customer claims, and an experience-based estimate at sale. For these facts the third approach properly matched warranty costs to recognised revenue. The computer-warranty example using 2% was illustrative; it did not prescribe a rate for Rotork or every business (paragraph 13).

Reliable estimation required records connecting sales, provisions and subsequent actual expenditure. The provisioning policy had to be examined against past experience, reassessed at each year-end and adjusted as the warranty period expired and the probability of expenditure reduced. Whether reversal should be pro rata or use another approach depended on the historical data. A robust estimate might leave little later reversal, but unused balances could not accumulate without review (paragraph 13).

Shree Sajjan Mills was a gratuity case governed by the overriding section 40A(7). General accrual principles could not defeat that specific restriction. The warranty claims for the years here had no equivalent restriction identified by the Court. It nevertheless cautioned that estimation of contingent liabilities is not the normal rule: nature of business, product, sales volume, scientific accounting and historical experience matter (paragraph 14).

Indian Molasses involved funds set aside for an individual's contingent pension arrangement and was distinguished. Metal Box and Bharat Earth Movers supported recognition of properly estimated obligations across a relevant class. The conclusion remained tied to systematic data and the reversal feature overlooked by the High Court; it was not approval of all reserves or all future expenditure (paragraphs 15-17).

Source: [reported judgment / paragraphs 10-17 / PDF pages 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27 / judgment](#)

03 JUDICIAL DECISION

The five lead assessee appeals were allowed and the Madras High Court judgment dated 5 February 2007 was set aside, with no order as to costs. The fourteen companion appeals filed by the Department were separately dismissed, also without costs. The warranty-deduction result was therefore in the assessees' favour across both groups; paragraph 18 and paragraph 19 must not be collapsed into a statement that every appeal was allowed.

Source: [reported judgment / paragraphs 18-19 / PDF pages 28 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assesseees

Five lead assessee appeals allowed; fourteen Revenue companion appeals dismissed; no costs in either group

Final allowance of the warranty-provision position on the facts and accounting evidence considered

A present obligation from past sales, probable resource outflow and reliable estimation must be shown. Annual reassessment, historical experience and excess-provision controls remain material; no automatic deduction of every provision or fixed safe-harbour percentage is created.

Source: [reported judgment / paragraphs Jurisdiction block; 18-19 / PDF pages 6, 28 / judgment](#)

05 AKHB REVIEW POINT

Build the deduction around the obligation and evidence, not the name of the reserve. Retain warranty terms, sale cohorts, defect frequency, claim costs, settlement experience and a reconciliation of opening provision, additions, utilisation, reversals and closing balance. Explain why the year-end estimate remains reasonable as each warranty cohort expires; a steadily growing unused balance needs scrutiny.

Neither Rotork's 1.5% nor the judgment's illustrative 2% is a universal rate. A single item or a business without reliable experience cannot simply adopt the result for a mass of sophisticated goods. Check any express statutory restriction before applying general accrual principles; the judgment itself preserves the gratuity restriction. Its citation of Bharat Earth Movers is not a ruling that leave-encashment deductions escape the later section 43B(f) condition.

Publish the lead and companion outcomes separately and do not attach Rotork's four AYs or rupee amount to unidentified companion cases. Later treatment and the governing statutory version still require independent verification.

Source: [reported judgment / paragraphs 4; 10-14; 17-19 / PDF pages 8, 9, 16, 17, 18, 19, 20, 21, 22, 27, 28 / judgment](#)

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

145; 40A(1); 40A(7); 28

PROVISION-SPECIFIC SCOPE

1.

Act: Income-tax Act, 1961

Section: 37(1)

Role: Principal deduction provision

Basis: Warranty obligations and reliable estimation, paragraphs 9-14 and 17-19.

2.

Act: Income-tax Act, 1961

Section: 145

Role: Accounting-method submission

Basis: Assessee argument concerning the pre-1997 version in paragraph 8; no general immunity from statutory deduction restrictions.

3.

Act: Income-tax Act, 1961

Section: 40A(1); 40A(7); 28

Role: Gratuity comparison and statutory override

Basis: Paragraphs 9 and 14 distinguish the express gratuity restriction from warranty claims for the years in issue.

4.

Act: Income-tax Act, 1922

Section: 10(2)(xv)

Role: Earlier precedent only

Basis: Indian Molasses is analysed in paragraphs 15-17; this is not a 1922 Act assessment appeal.

INDIVIDUAL APPEAL OUTCOMES

1.

Case number: Civil Appeal Nos. 3506-3510 of 2009

Appellant: Rotork / assessee

Assessment years: 1991-92; 1992-93; 1993-94; 1994-95

Disposition: Allowed; Madras High Court judgment dated 5 February 2007 set aside; no costs

Source

Source url: [Open cited source](#)

Paragraphs: 18

Pdf pages: 28

Source role: judgment

2.

Case number: Civil Appeal Nos. 3511-3524 of 2009

Appellant: Department / Revenue

Assessment years:

Disposition: Dismissed for the lead judgment reasons; no costs

Source

Source url: [Open cited source](#)

Paragraphs: Jurisdiction block and 19

Pdf pages: 6; 28

Source role: judgment

Note: The source does not match each assigned civil-appeal number to a particular SLP or supply individual assessment years.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.H. Kapadia, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 28 PDF pages; SHA-256

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Editorial headnote and references on physical pages 1-6; jurisdiction and fourteen companion appeal numbers on page 6; complete judgment paragraphs 1-19 on physical pages 7-28, printed SCR pages 1158-1179. Paragraph 18 disposes of the five lead assessee appeals; paragraph 19 separately dismisses the fourteen Revenue companion appeals listed before it.

Open cited source rendition

Five lead assessee appeals and fourteen Revenue companion appeals have different formal dispositions.

Assigned companion appeal numbers are printed in the jurisdiction block, while the operative page retains blank civil-appeal fields and lists originating SLP/CC numbers. No unsupported one-to-one mapping is supplied.

Lead case AYs only are known; precedent and historical accounting years are not companion assessment years.

The historical AY 1985-86 disallowance prevents an unqualified claim of uniform past allowance.

Paragraph 13 illustrative 2% rate and thirty-six-month computer warranty are not Rotork facts.

Full judicial text is separated from the six-page editorial/jurisdiction preface.

Reported SCR citation verified on source cover or running header. Catalogue neutral citation is not independently verified and is not adopted.

Paragraph 3 identifies AYs 1991-92 to 1994-95 for the lead Rotork appeals; AY 1991-92 supplies the detailed facts. The common judgment does not separately identify the assessment years or amounts for the fourteen Revenue companion appeals. Earlier Rotork years and years in cited precedents are not added to the litigated-year list.

STATUTORY SCOPE

Historical Income-tax Act, 1961 provisions applied or discussed in this judgment; any identified later qualification is a bounded check, not a full statutory-version audit.

No automatic Income-tax Act, 2025 crosswalk, comprehensive later-treatment audit or present-law certification.

LATER TREATMENT

Source checked 2026-10-04. Subsequent judicial treatment and later statutory changes have not been comprehensively verified. Any separately identified authority is a bounded check, not a citator or current-law certificate.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 28

SHA-256: 22ad5e1722b575ddef2fbd10888e00193e14332313d859af35e134e9c91cfc44

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