Case Citation: (2026) taxcode.in 176 AARGST

TELANGANA STATE AUTHORITY FOR ADVANCE RULING
CT Complex, M.J. Road, Nampally, Hyderabad-500001.
(Constituted under Section 96(1) of TGST Act, 2017)

Present:
Sri Vivekananda Reddy, I.R.S., Additional Commissioner (Central Taxes)
Smt. K. Geeta, Additional Commissioner (State Taxes)

A.R.Com/21/2024 **Dated: 18.09.2026**

TS AAR Order No. 10/2026

[ORDER UNDER SECTION 98(4) OF THE CENTRAL GOODS AND SERVICES TAX ACT, 2017 AND UNDER SECTION 98(4) OF THE TELANGANA GOODS AND SERVICES TAX ACT, 2017.]

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1. M/s. Sai Silks Kalamandir Limited, Ameerpet, Hyderabad – 500 016, Telangana (GSTIN 36AAMCS1175P1ZO) (herein after called as the applicant or company) has filed an application in FORM GST ARA-01 under Section 97(1) of TGST Act, 2017 read with Rule 104 of CGST/TGST Rules.
2. At the outset, it is made clear that the provisions of both the CGST Act and the TGST Act are the same except for certain provisions. Therefore, unless a mention is specifically made to any dissimilar provisions, a reference to the CGST Act would also mean a reference to the same provision under the TGST Act. Further, for the purposes of this Advance Ruling, the expression 'GST Act' would be a common reference to both CGST Act and TGST Act.
3. It is observed that the queries raised by the applicant fall within the ambit of Section 97 of the GST ACT. The Applicant enclosed copies of challans as proof of payment of Rs. 5,000/- under SGST and Rs.5,000/- under CGST towards the fee for Advance Ruling. The Applicant has declared that the questions raised in the application have neither been decided nor are pending before any authority under any provisions of the CGST/TGST Act'2017. The application is, therefore, admitted after examining it and the records called for and after hearing the applicant as per section 98(2) of TGST Act'2017.

4. BRIEF FACTS OF THE CASE:

4.1 The applicant is a Public Limited Company registered under the Companies Act, 1956 and is also registered under the provisions of the Central Goods and Services Tax Act 2017 read with the provisions of the Telangana State Goods and Services Tax Act 2017.

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4.2 That the applicant is one of the most prominent clothing merchants in South India offering both affordable fashion and ethnic clothing. The applicant manages four well-known and reputable brands: Kalamandir, Kancheepuram Varamahalakshmi Silks, Brand Mandir, and KLM Fashion Mall. The stores are spread over four south Indian states: Telangana, Karnataka, Andhra Pradesh, and Tamil Nadu. In 2005, the group started its first store in a 3213-square-foot retail space.

4.3 The applicant offered its shares to public through an IPO which included fresh issue of shares and "offer for sale" by the existing shareholders.

4.4 The applicant submitted that the funds generated through above methods are earmarked for furthering the company's operations which includes initiatives such as expanding production capacity, investing in new technologies, entering new markets, or even paying off existing debts to strengthen the financial position.

5. QUESTION RAISED:

1. Whether the Input Tax Credit (ITC) on expenses incurred in the course of Initial Public Offering (Fresh Issue) by the applicant are eligible under Section 16 of the Act?

6. PERSONAL HEARING:

The authorized representative M.Dayakar Reddy, STP & M.Ravi Teja Reddy, CA appeared before the AAR on 29.06.2026 and reiterated their averments in the application submitted.

7. DISCUSSION & FINDINGS:

7.1 There are several methods for resource mobilization in the primary stock / share market. The prominent among them with regard to shares are:

o Initial Public offer: An initial public offering (IPO) refers to the process of offering shares of a private company to the public at large by listing its shares on stock exchange for the first time.

o Offer for sale: An Offer for Sale (OFS) is a simpler method wherein shareholders / promoters in public companies can sell their shares and reduce their holdings in a transparent manner through stock exchange.

o Follow-on public offer: Follow-on Public Offer ('FPO') is a process in which an existing company listed on stock exchange issues new shares to the existing shareholders or to the new investors.

o Rights Issue: A rights share issue is an offering of rights given to a company's existing shareholders, allowing them to purchase additional shares directly from the company at a discounted price, rather than buying them through the secondary market. The number of additional shares that a shareholder can purchase depends on their existing holding.

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7.2 According to Section 2(1)(w) of Securities Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, the term initial public offer (IPO) is defined as follows:

'(w) "initial public offer" means an offer of specified securities by an unlisted issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in an unlisted issuer"

Thus, issue of IPO can be categorized into below mentioned scenarios:

a. Fresh issue of shares-In fresh issue, a company issues new shares that are offered to the public for the first time. The proceeds from the sale of these shares go directly to the company, and they are typically used for expansion, debt reduction, or other corporate purposes.

b. Offer for sale (OFS)-In OFS, existing shareholders, such as promoters, venture capitalists, or other investors, sell their shares to the public. The company does not receive any proceeds from this type of offering; instead, the selling shareholders benefit from the sale.

c. Combined Offer-This type of issue combines both a fresh issue of shares and an offer for sale. Here, the company issues new shares to raise capital, and existing shareholders also sell some of their shares.

7.2 The instant case falls under the third category i.e. Combined offer of fresh issue of shares and an offer for sale by the existing shareholders.

The preamble of the offer reads as under:

Initial public offering of 5,40,99,027 equity shares of face value of ₹ 2 each ("equity share") of sai silks (kalamandir) limited (our "company" or the "issuer") for cash at a price of ₹222 per equity share including a share premium of ₹ 220 per equity share (the "offer price") aggregating to ₹ 12,009.98 million (the "offer"). the offer comprised of a fresh issue of 27,027,027 equity shares by our company aggregating to ₹ 6,000.00^million (the "fresh issue") and an offer for sale of 27,072,000 equity shares (the "offered shares") aggregating to ₹ 6,009.98^ million (the "offer for sale"), comprising offer for sale of (a) 6,409,345^ equity shares aggregating to ₹ 1,422.87 million by nagakanaka durga prasad chalavadi, 7,949,520 equity shares aggregating to ₹ 1,764.79 million by jhansi rani chalavadi (collectively, the "promoter selling shareholders"), and (b) 3,083,865 equity shares aggregating to ₹ 684.62 million by dhanalakshmi perumalla, 656,295 equity shares aggregating to ₹ 145.70 million by doodeswara kanaka durgarao chalavadi, 6,346,975^ equity shares aggregating to ₹ 1,409.03 million by kalyan srinivas annam, 2,120,500 equity shares aggregating to ₹ 470.75 million by subash chandra mohan annam and 505,500 equity shares aggregating to ₹

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112.22 million by venkata rajesh annam (collectively the "promoter group selling shareholders" and together with the promoter selling shareholders, the "selling shareholders") (the "offer for sale, and together with the fresh issue, the "offer"). the offer constitutes 35.27% of the post-offer paid-up equity share capital of our company.

7.3 The objects for which the Net Proceeds from the Offer shall be utilized are as follows

Funding capital expenditure towards setting-up of 30 new stores, Funding capital expenditure towards setting-up of two warehouses, Funding working capital requirements of the Company, Repayment or pre-payment, in full or part, of certain borrowings availed by the Company and General corporate purposes

7.4 The offer related expenses in relation to fresh issue estimated to be at Rs.33.763 cr. The applicant seeks clarification as to whether they are entitled to ITC on such expenses incurred.

7.5 At the outset, it is made clear that the expenses incurred relatable to "offer for sale " by the existing share holders cannot be deemed to be part of the business of the company Therefore, though it may be facilitated by the company, the GST levied on such expenses by the suppliers of service is not eligible for ITC claim by the company.

7.6 Statutory provisions:

Section 2(17)(b) of the CGST Act, 2017:

—business includes —

(a) any trade, commerce, manufacture, profession, vocation, adventure, wager or any other similar activity, whether or not it is for a pecuniary benefit;

(b) any activity or transaction in connection with or incidental or ancillary to sub-clause (a);

(c) any activity or transaction in the nature of sub-clause (a), whether or not there is volume, frequency, continuity or regularity of such transaction;

(d) supply or acquisition of goods including capital goods and services in connection with commencement or closure of business;

(e) provision by a club, association, society, or any such body (for a subscription or any other consideration) of the facilities or benefits to its members;

(f) admission, for a consideration, of persons to any premises;

(g) services supplied by a person as the holder of an office which has been accepted by him in the course or furtherance of his trade, profession or vocation;

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(h) [activities of a race club including by way of totalisator or a license to book maker or activities of a licensed book maker in such club; and]

(i) any activity or transaction undertaken by the Central Government, a State Government or any local authority in which they are engaged as public authorities

Section 7. Scope of supply

(1) For the purposes of this Act, the expression - "supply" includes-

(a) all forms of supply of goods or services or both such as sale, transfer, barter, exchange, licence, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business;

(aa) the activities or transactions, by a person, other than an individual, to its members or constituents or vice-versa, for cash, deferred payment or other valuable consideration.

Explanation:- For the purposes of this clause, it is hereby clarified that, notwithstanding anything contained in any other law for the time being in force or any judgment, decree or order of any Court, tribunal or authority, the person and its members or constituents shall be deemed to be two separate persons and the supply of activities or transactions inter se shall be deemed to take place from one such person to another;

(b) import of services for a consideration whether or not in the course or furtherance of business; and

(c) the activities specified in Schedule I, made or agreed to be made without a consideration;

Section 16(1)

Every registered person shall, subject to such conditions and restrictions as may be prescribed and in the manner specified in section 49, be entitled to take credit of input tax charged on any supply of goods or services or both to him which are used or intended to be used in the course or furtherance of his business and the said amount shall be credited to the electronic credit ledger of such person.

7.7 Two expressions need to be understood separately:

- In the course of business – the transaction is directly connected with the normal/business activities of the person.

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- In furtherance of business – the transaction, though it may not itself constitute the principal business activity, is undertaken to promote, facilitate, support or advance the business.

7.8. Furtherance of business

The expression "furtherance of business" is not specifically defined in the CGST Act. In ordinary legal/commercial understanding, it means an activity undertaken with the object or effect of promoting, advancing, facilitating or supporting the business of the taxable person. It has a wider meaning than merely undertaking the core business activity. A common misconception is that an inward or outward transaction must be directly related to the actual goods or services sold by the taxpayer to qualify as being in furtherance of business. That is not necessarily correct.

7.9 The distinction between "In the course of" and "in furtherance of" can be explained as follows:

i. In the course of business

Activities forming part of, or occurring during, the normal conduct of business.

ii. In furtherance of business

Activities that support, facilitate, promote or advance the business, even though they may not form part of the principal business activity.

Thus, furtherance of business is a broader concept than the core business activity.

For example, a manufacturer may be engaged in manufacturing goods. Activities such as advertising, professional consultancy, accounting, legal services, recruitment, security, transportation and banking are not manufacturing activities themselves, but they may clearly be in furtherance of the manufacturing business.

7.10 i. The applicant incurred IPO expenses on which ITC is to be claimed. Typical IPO expenses include:

- Merchant banker fees
- Legal consultancy
- Registrar fees
- Underwriting commission
- Advertising
- Listing fees

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ii. IPO-related expenditure is incurred by a company for undertaking the process of going public and raising funds. The funds raised through the IPO are deployed for business purposes such as:

- expansion of business;
- acquisition of assets;
- working capital requirements;
- repayment of borrowings;
- setting up new projects; and
- other corporate/business objectives.

iii. In the instant case, the objects for which the Net Proceeds from the Offer shall be utilized are mentioned as as Funding capital expenditure towards setting-up of 30 new stores, Funding capital expenditure towards setting-up of two warehouses, Funding working capital requirements of the Company, Repayment or pre-payment, in full or part, of certain borrowings availed by the Company and General corporate purposes

iv. Section 17(5) contains specific categories of inward supplies on which ITC is blocked. IPO expenses, as such, are not one of the specified blocked categories.

v. The IPO services facilitate the company's access to capital, which in turn facilitates its business activities. Thus, there is an indirect but substantial nexus with furtherance of business.

vi. Section 16(1) deliberately uses the wider expression "in the course or furtherance of business", rather than requiring the input to be directly incorporated into the output supply.

vii. The Hon'ble Supreme Court in Safari Retreats case has recognised that Section 16(1) is the principal enabling provision for ITC where goods/services are used or intended to be used in the course or furtherance of business. The Hon'ble Court noted that Section 16(1) confers entitlement to ITC on inputs used or intended to be used in the course or furtherance of business, while Section 17(5) creates specific exceptions to that entitlement.

8. The Hon'ble CESTAT, Bengaluru Bench in the case of M/s Kernex Microsystems (India) Ltd. v. CCE, Cus. & ST [2016] (42) STR 533 (Tri. - Bang.) wherein the IPO was arranged by the company for expansion of its activities. The Tribunal held that CENVAT Credit on input services like advertisement, used for collecting capital through IPO by the appellant could not be denied. Definition of 'input services 'under rule 2(l) of CCR 2004 is wide enough to cover such services. An extract of the said judgement is as under:

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"4. After considering the submissions, we have found prima facie case for the appellant. It appears from the records that the taxable value determined by the department comprises amounts paid by the appellant to various agencies as consideration for services received in connection with expansion of their manufacturing plant. Prima facie, the services availed in connection with floating initial public offer and the allied business activities would fall within inclusive part of the definition of input service under Rule 2(1) ibid in terms of the test laid down by the Hon'ble High Courts."

8. In view of the foregoing, we rule as follows:

In view of the above discussion, the questions raised by the applicant is clarified as below:

Question		Ruling
1. Whether the Input Tax Credit (ITC) on expenses incurred in the course of Initial Public Offering (Fresh Issue) by the applicant are eligible under Section 16 of the Act?		Input Tax Credit on expenses incurred in the course of Intial Public Offering (Fresh issue) is eligible to be claimed, when the net proceeds are utilised for furtherance of business. It is also made clear that the Input Tax Credit,if any, on portion of expenses incurred towards the part relating to "offer of sale" by the existing shareholders, the proceeds of which do not accrue to the company, is not eligible to be claimed.

Additional Commissioner
(Central Tax)

Additional Commissioner
(State TAX)

[under Section 100 (1) of the CGST/TGST Act, 2017, any person aggrieved by this order can prefer an appeal before the Telangana State Appellate Authority for Advance Ruling, Hyderabad, within 30 days from the date of receipt of this order]

To
M/s. Sai Silks Kalamandir Limited, Ameerpet, Hyderabad.
Copy to Superintendent (Central Tax), Ameerpet-III Range, Ameerpet Division.

Copy submitted to:

1. The Chief Commissioner (State Tax) for information.
2. The Commissioner (Central Tax), Hyderabad Commissionerate, 2nd Floor, GST Bhavan, Basheerbagh, Hyderabad, Telangana - 500004.

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