CUSTOMS, EXCISE & SERVICE TAX APPELLATE TRIBUNAL
NEW DELHI
PRINCIPAL BENCH, COURT NO. 1

CUSTOMS APPEAL NO. 51592 OF 2022

[Arising out of Order in Appeal No. CC(A) CUS/D-I/GEN/3972/2021-22 dated 24.01.2022 passed by the Commissioner (Appeals), New Delhi]

M/S CADENCE DESIGN SYSTEMS INDIA PVT LTD **....APPELLANT**
Plot No. 57A & B, Noida Special Economic Zone

Vs.

COMMISSIONER, CUSTOMS-NEW DELHI **....RESPONDENT**
New Customs House, Near IGI Airport,
New Delhi 110037

Appearance:
Shri Deepak Thakur, Shri Rishab Mishra and Ms. Akansha Wadhwani, Advocates for the Appellant

Shri Girijesh Kumar, Authorised Representative for the Respondent

CORAM:
HON'BLE MR. JUSTICE DILIP GUPTA, PRESIDENT
HON'BLE MR. P. V. SUBBA RAO, MEMBER (TECHNICAL)

FINAL ORDER NO. 50806 /2026

DATE OF HEARING : 09/03/2026
DATE OF DECISION: 28/04/2026

P.V.SUBBA RAO

1. M/s Cadence Designs Systems India Pvt. Ltd.[1] filed this appeal to assail the order dated 24.01.2022 passed by the Commissioner of Customs (Appeals) in which he upheld the order of the Assistant Commissioner dated 19.05.2017 and rejected the appellant's appeal.

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1 Appellant

2. The appellant is a fully owed subsidiary of M/s Cadence Design Systems, USA[2] and is a Software Technology Park of India[3]unit. It acts as the back office and provides support services to Cadence, USA.

3. In March 2006, the appellant had imported computer system called "Palladium system" from Cadence, USA. As the imports were made by the appellant from its parent company, the matter was referred to the Special Valuation Branch[4] of the Customs House to determine the value. It must be pointed out that as a unit located in STPI, the appellant was not liable to pay any duty at all unless the imported goods were taken out of the STPI. The determination of the value by the SVB was, therefore, more of an academic interest. On 06.01.2014, the Assistant Commissioner passed the order rejecting the transaction value of the appellant as the assessable value.

4. Aggrieved, the appellant filed an appeal before the Commissioner (Appeals). By order dated 28.04.2015, the Commissioner (Appeals) remanded the matter to the Assistant Commissioner. On 09.05.2017 the Assistant Commissioner passed an order in the *de novo* proceedings which the appellant assailed before the Commissioner (Appeals). The Commissioner (Appeals) upheld the order of the Assistant Commissioner and, therefore, the appellant filed an appeal before this Tribunal. By order dated 23.03.2021, this Tribunal remanded the matter to

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2 Cadence USA
3 STPI
4 SVB

the Commissioner (Appeals) for *de novo* adjudication. The Commissioner (Appeals), thereafter, passed the impugned order upholding the order of the Assistant Commissioner. Aggrieved, the appellant filed this appeal.

5. At the outset, we may point out that this entire litigation is largely for academic purposes as, according to the learned counsel for the appellant, the appellant is an STPI unit and, therefore, was not required to pay duty at all regardless of what value is determined by the officers.

Submissions of the appellant.

6. Learned counsel for the appellant asserted that the impugned order wrongly upheld the loading of 14.24 % of the invoice value to determine the assessable value on the ground that the Cadence USA and the appellant were related as per rule 2(ii)(v) of the Customs Valuation (Determination of Value of Imported Goods) Rules, 2007[5] and submitted as follows:

(i) The department failed to show "mutuality of interest" and, therefore, the transaction value of the goods imported in 2006 cannot be rejected.

(ii) The Palladium system was imported before 2007 and as per section 14(1) of the Customs Act, 1962[6] as applicable during the relevant period the value for the purpose of Customs Act was the

5 Valuation Rules
6 Act

value of such goods which are ordinarily sold or offered for sale for delivery at the time and place of importation or export, as the case may be, in the course of international trade where the seller and buyer have no interest in business of each other.

(iii) Merely because the importer and exporter are related, the transaction value cannot be rejected.

(iv) There is no allegation by the department that the appellant and Cadence, USA had mutuality of interest. This point was specifically raised but it has been rejected on the ground that there is no such requirement under law;

(v) The appellant is a wholly owned subsidiary of Cadence, USA but it will not prove mutuality of interest.

(vi) Since the department failed to show the mutuality of interest, the transaction value should have been accepted.

(vii) The transaction value cannot be rejected in the absence of any proof that the invoice value was undervalued.

(viii) Palladium Computer Systems was imported by the appellant in March 2006 at arm's length price.

The other IT equipment and accessories were procured by Cadence, USA from third parties and supplied to the appellant. The products were imported by the appellant on the same commercial invoice on which third parties had sold the goods to Cadence, USA. The appellant has submitted three certificates 29.06.2006, 23.05.2013 and 08.05.2017 from Cadence, USA regarding the valuation. In the certificate dated 26.09.2006 Cadence, USA stated that palladium computer system was supplied to the appellant on cost + representative profit. The certificate dated 23.05.2013 certified that the goods supplied in March 2006 was submitted at an arm's length price to the appellant. The certificate dated 08.05.2017 specifies that Cadence USA had procured computer parts, spares and accessories, IT equipment and office stationery from associated subsidiary companies and supplied to Cadence India(appellant) for internal use and consumption and no profit margin was added.

(ix) Without going into the merits of the certificates produced, the SVB proceedings were initiated solely on the basis that Cadence USA and the appellant were related parties.

(x) The appellant is an STPI Unit and was anywhere exempted from the customs duty and, therefore, the SVB proceedings are liable to be dropped.

(xi) The department has imposed arbitrary values.

Submissions on behalf of the Revenue

7. Learned authorized representative vehemently supported the impugned order and asserted that the impugned order is correct and proper and calls for no interference.

Findings

8. We have considered the submissions advanced by both sides and perused the records.

9. At the outset, we find that the entire case is of academic interest. The appellant has been fighting this case only for academic interest and the only financial implication of this case is the cost of litigation incurred by both sides.

10. The submissions of the learned counsel are that since the appellant is an STPI unit, the SVB proceedings are liable to be dropped is without any legal basis. The question in dispute is the value of the imported goods. Determination of the value imported goods has to be done as per section 14 and the Valuation Rules as applicable during the relevant period.

11. Relevant portion of the section 14 of the Customs Act is reproduced below:

> "Section 14- Valuation of goods for purposes of assessment.
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> (1) For the purpose of the Customs Tariff Act, 1975 (51 of 1975), or any other law for the time being in force whereunder a duty of customs is chargeable on any goods by reference to their value, the value of such goods shall be deemed to be the price at which such or like goods are ordinarily sold, or offered for sale, for delivery at the time and place of importation or exportation, as the case may be, in the course of international trade, where -
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> (a) the seller and the buyer have no interest in the business of each other; or
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> (b) one of them has no interest in the business of the other, and the price is the sole consideration for the sale.....
>
> (1A) Subject to the provisions of sub-section (1), the price referred to in that subsection in respect of imported goods shall be determined in accordance with the rules made in this behalf"

12. There is no special provision for STPI Units. It is true that an STPI unit is anyway exempted from the payment of duty and, therefore, regardless of the value determined, no duty needs to be paid. Therefore, there is no ground to drop the SVB proceedings under law even if the appellant is an STPI unit. In this case there is no demand of duty at all for this reason.

13. Anyway, since the appellant is contesting the order passed by the SVB, we proceed to decide it. The main palladium system was imported in March, 2006 before the amendment of the section 14 and the Customs Valuation Rules, 2007 were notified. Other goods were imported after 2007.

14. The first contention of the appellant is that the parent company Cadence, USA and the appellant have no interest in the

business of each other. It is undisputed that the appellant is a fully owned subsidiary of its parent company. Therefore, it is difficult to say that the parent company had no interest on the appellant business. It is also difficult to say that the appellant had no interest in the business of its parent company because it as to show profits to its parent company.

15. The question of mutuality of interest in the definition of related persons has been decided in a central excise case by the Supreme Court in the case of **Commissioner of Central Excise, Hyderabad** vs. **Detergent India Limited**[7]**.** The relevant portion of this judgment is below:

> "12. When we come to the definition of "related person" the legislature has used a well known technique. It first employs the expression "means" and states that persons who are associated with the assessee so that they have a direct or indirect interest in the business of each other would get covered. The definition then goes on to use the expression "and includes" thereby indicating that the legislature intends to extend the definition to also include various persons that would not otherwise have so been included. These include a holding company, a subsidiary company, a relative and a distributor of the assessee and any sub-distributor of such distributor. The necessity for including holding and subsidiary companies as defined under the Companies Act, 1956 is to lift the corporate veil in order to get to the economic realities of the transaction."

16. **Detergent India** was followed by the Supreme Court in **Commissioner of Central Excise, Mumbai-V** vs. **"J"**

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7 2015 (318) ELT 559 (SC)

Foundation[8]**.** Similarly in the case of **Commissioner of Central Excise** vs. **ITEC (P) Ltd.**[9]**,** the Supreme Court had set aside the finding of this Tribunal that the mutuality of interest has not been established when the buyers and sellers had common directors. Paragraph 9 of this judgment is reproduced below:

> "9. We may now turn to the findings recorded by the Customs, Excise and Gold (Control) Appellate Tribunal. It was found that the respondent and M/s International were having common Directors and that they were relatives of one another; a further finding was also noted that both the Companies were family concerns and were beneficiaries of their ventures and that the benefits of both the concerns are shared by members of one and the same family. From these findings, it is difficult to resist the conclusion that the respondent and M/s International have a direct interest, in the business of each other and that the mutuality of interest between the two is apparent. We may point out here that the Tribunal's observation, quoted above, that no evidence regarding mutuality of interest has been brought on record, is inconsistent with the acceptance of the finding of the adjudicating authority, referred to above. Once those findings are accepted, the conclusion that there is mutuality of interest between the two concerns is inevitable. In this view of the matter, we set aside the finding of the Tribunal that the respondent and M/s International are not related persons."

17. Similarly in the case of **Calcutta Chromotype Limited** vs. **Collector of Central Excise, Calcutta**[10] the Supreme Court held as follows:

> "15. In the present case, we do find that the authorities of and the Appellate Tribunal did address themselves to the basic question as to the shareholdings of both, the assessee and the buyer, inasmuch as they found that the Managing Director of both the companies was the

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8 2015 (324) ELT 422(SC)
9 2002 (145) ELT 280 (SC)
10 1998 (99) ELT 202 (SC).

> same and one more director was common. It was also found that the shares of both the companies were held by the members of the 'Sharma family' but that is quite a vague expression and, therefore, in our view, the Appellate Tribunal was partly right in giving the direction to ascertain the break-up of the shares of each member of the family in the two companies. To lift the veil the actual shareholding of both the companies and the persons in control of the management of both the companies needed to be ascertained to consider the identity of interest of both the companies in the business of each other. No presumption of such mutuality of interest in the business of each other could have been drawn without the factual data.

18. It is trite to say that the subsidiary company has an interest in running the business successfully and turning over more profits to its parent company which is its sole shareholder. Similarly, the parent company as the sole shareholder will have an interest in business of its subsidiary company. The submission of the learned counsel that the appellant and its parent company had no mutuality of interest cannot be accepted and deserves to be rejected and is rejected.

19. For the period after 2007, the Customs Valuation Rules 2(2) of Customs valuation Rules defined related persons as follows:

> "2(2) For the purpose of these rules, persons shall be deemed to be "related" only if –
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> (i) they are officers or directors of one another"s businesses;
>
> (ii) they are legally recognised partners in business;
>
> (iii) they are employer and employee;
>
> (iv) any person directly or indirectly owns, controls or holds five per cent or more of the outstanding voting stock or shares of both of them;
>
> (v) one of them directly or indirectly controls the other;

> (vi) both of them are directly or indirectly controlled by a third person;
>
> (vii) together they directly or indirectly control a third person; or
>
> (viii) they are members of the same family.
>
> Explanation I. - The term "person" also includes legal persons.
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> Explanation II. - Persons who are associated in the business of one another in that one is the sole agent or sole distributor or sole concessionaire, howsoever described, of the other shall be deemed to be related for the purpose of these rules, if they fall within the criteria of this sub-rule.

20. As can be seen, if one company directly or indirectly controls the other the two should be treated as related persons. It is undisputed that the parent company Cadence USA controls the appellant. Therefore, they two are related persons. In short, the appellant and Cadence USA were related persons both under the provisions before 2007 and after 2007.

21. We now proceed to decide the question of valuation. As per Rule 3(3) of the 2007 Valuation Rules, even if the buyer and seller are related, the transaction value shall be accepted provided that the examination of the circumstances of the sale of the imported goods indicate that the relationship did not influence the price. Further, in the sale between related persons the transaction value shall also be accepted when the importer demonstrates that the declared value of the goods being valued, closely approximate to one of the following values ascertained on or about the same time.

(i) Transaction value of identical goods or similar goods in sales to unrelated buyers in India.

(ii) Deductive value of identical goods or similar goods

(iii) Computed value of identical goods or similar goods.

22. As far as the Palladium computer is concerned, it is undisputed that similar systems were not sold by Cadence USA to anyone else in India. Having found that the appellant and Cadence, USA were related persons, we now proceed to decide the question of re-determination of the value of the goods by the Assistant Commissioner and upheld in the impugned order. There are, in all two types of goods:

a) Palladium system imported in 2006

b) Other goods imported after 2007

23. The documents available before us to determine the value are the Cost Certificates issued by Cadence, USA. As per the cost certificate dated 26.9.2006, the system 29HT9P9 with 18 29HTIOKIT & 2 29HTSIMACCEL were sold to the appellant after charging a fee to ensure recovery of the total costs of the goods supplied plus representative profits. The total costs of the goods included both direct and indirect costs.

24. The certificate further states that the profits earned by Cadence USA on the sale to the appellant during 2004 and 2005 were 0% (since the first sale took place in 2006). The overall profit of Cadence for the corresponding periods in relation to sales of goods of the same class or kind of goods was recorded as 17% (for 2004) and 25% (for 2005).

25. A letter dated May 23, 2013 issued by Group Director, Export Complaince, Cadence, USA 'To Whom It may Concern' states that no goods of identical or similar equipment were exported to India at that time. The value was based upon a standard 'arms length' transaction, not taking into account the relationship of the parties and the value of the equipment as specified in the commercial invoice covered the costs of the equipment plus transportation and reasonable overhead and profit.

26. There are no other documents on record which would show the valuation of the Cadence system imported in 2006 to be otherwise. As per Rule 4(3) of the 1988 Valuation Rules, where the buyer and seller are related, the transaction value shall be accepted provided that examination of the circumstances of sale of the imported goods indicate that the relationship did not influence the price.

27. Based on the documents available, we are satisfied that the relationship between the appellant and Cadence USA, did not influence the sale price and all costs including reasonable profit have been included in the cost of the Palladium system imported by the appellant.

28. The impugned order directing loading of value needs to be set aside insofar as this system is concerned.

29. Other goods were imported by the appellant after 2007 and hence the new section 14 and the Customs Valuation Rules, 2007 would apply to such imports.

30. A cost certificate/Pricing policy dated 8th may 2017 was issued by the Group Director, Export Compliance of Cadence USA in which it is mentioned with respect to the goods imported from 2006 to 2016 as follows:

'These exports made to Cadence India during 2006 to 2016 were not intended for sale, rather only for internal use and consumption by Cadence India. Thus, the Commercial invoice value was declared for customs valuation purpose only, **without adding any profit margin by Cadence Inc**.'

31. Clearly, the commercial invoices were issued only for the purpose of Customs and in respect of these goods, the value was declared without taking into account any profit margin. The profitability of Cadence USA was considered by the Assistant Commissioner for the entire period of dispute 2006 to 2016 as per the profitability statement supplied by Cadence, USA. Reckoning the average profitability, he ruled that 14.2% should be added to the prices indicated in the invoices to arrive at arm's length price. This decision was upheld by the Commissioner (Appeals) through the impugned order.

32. We find no infirmity in this decision. According to Cadence USA itself, the commercial invoices were not meant for sale but

were issued only for the purpose of customs and that those invoices covered the costs but had not included any profit margin.

33. Needles to say that had the goods been sold to an unrelated person, a profit margin would have definitely been added. The profit margin added was calculated based on the average profit during the period provided by Cadence USA, itself. The fact that Cadence, USA got the goods shipped directly from its suppliers to the appellant would make no difference because what is relevant is the transaction value between the appellant and the Cadence, USA which did not include the profit margin.

34. Such being the case, we find no infirmity in the Assistant Commissioner determining the value of these goods after adding 14.2 % as profit margin.

To sum up:

a) The appellant and Cadence USA were related persons with interest in the business of each other.

b) The relationship had not affected the price of the Palladium system imported in 2006 as it was sold covering the costs and a profit margin. Further, addition of a profit margin to the invoice value in respect of this system, therefore, was not correct.

c) Other goods were sold to the appellant by Cadence without considering the profit margin. Therefore, the Assistant

Commissioner was correct in adding a profit margin of 14.1% to other goods imported by the appellant.

35. The appeal is partly allowed and the impugned order is set aside insofar as it upholds the addition of 14.1% as notional profit margin to the Palladium system. Rest of the impugned order is upheld.

36. The appeal is partly allowed and the impugned order is modified to the extent indicated above.

[Order pronounced on **28/04/2026**]

(JUSTICE DILIP GUPTA)
PRESIDENT

(P. V. SUBBA RAO)
MEMBER (TECHNICAL)

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