CUSTOMS, EXCISE & SERVICE TAX APPELLATE TRIBUNAL
MUMBAI

WEST ZONAL BENCH, MUMBAI

CUSTOMS APPEAL NO. 87853 OF 2025

(Arising out of Order-in-Original No. 07/2025-26/Commr. NS-V/Gr. VB/JNCH dated 16.10.2025 passed by the Commissioner of Customs, Nhava Sheva, Raigad.)

M/s IZI
D-401 Ansal Lake View Enclave, ...Appellant
Bhopal City, Bhopal,
Madhya Pradesh-462013

VERSUS

Commissioner of Customs-Nhava Sheva-V .....Respondent
JNPT, Custom House, Nhava Sheva,
Raigad, Mhaharashtra-400 707**.**

WITH

CUSTOMS APPEAL NO. 87854 OF 2025

(Arising out of Order-in-Original No. 07/2025-26/Commr. NS-V/Gr. VB/JNCH dated 16.10.2025 passed by the Commissioner of Customs, Nhava Sheva, Raigad.)

M/s IZI ventures p ltd
B-101 Ansal Lake View Enclave, ...Appellant
Bhopal City, Bhopal,
Madhya Pradesh-462013

VERSUS

Commissioner of Customs-Nhava Sheva-V .....Respondent
JNPT, Custom House, Nhava Sheva,
Raigad, Mhaharashtra-400 707**.**

APPERANCE:

Shri Ashwini Kumar, Advocate alongwith
Shri Abhishek Godase, Advocate for the Appellant

Shri Ram Kumar, Dy. Commissioenr, Authorised Representative for the Respondent

CORAM:

HON'BLE DR. SUVENDU KUMAR PATI, MEMBER (JUDICIAL)
HON'BLE MR. M.M. PARTHIBAN, MEMBER (TECHNICAL)

FINAL ORDER NOS. A/85562-85563/2026

Date of Hearing: 07.04.2026
Date of Decision: 21.04.2026

PER: DR. SUVENDU KUMAR PATI

Rejection of request made to the Commissioner of Customs, JNCH, NS-V, for provisional release of Drones and its components/parts seized from appellants' premises on 05.02.2025, 11.02.2026 and on dated. 20.02.2025 after presentation of Bill of Entry for clearance is assailed before this Tribunal with a request for direction for such provisional release.

2. Facts of the case would go to reveal that appellant M/s. IZI Ventures Pvt. Ltd., of Bhopal had imported goods by declaring those as "Drone parts and Components" covered under Bill of Entry No. 7724157 dated 10.01.2025 which, upon examination by Dock officer, was found to be parts of complete Drone being imported in complete Knocked-down /semi-knocked down condition (CKD/SKD) so as to make the drone complete after clearance from Customs in violation of DGFT Notification NO. 54/2015-20 dated 09.02.2022 that prohibits import of drones by Non-Government concern in completely built-up condition (CBU) or SKD/CKD Conditions and only parts/components of Drone are meant for free importation. On the basis of Dock officer's report, preliminary investigation was conducted by the Special Intelligence and Investigation Branch (SIIB), who noticed that importer had filed eight Bills of Entries at different CFS locations, out of which seven were given out of charge (OCC) and goods have been removed from Customs area. Further enquiry revealed that both appellants' are controlled by same person named Ishan Haydn as the Director of the Private Limited Firm that imported certain spares/ components while the other being a proprietorship firm imported the remaining spares/components in CKD/SKD condition so as to make the drone complete. Those goods were accordingly seized under proper Seizure Memo and appellants sought for its release after intervention of Hon'ble High Court directing the Commissioner

to pass an order for provisional release. The order for such release had gone against the appellants, who are before us for necessary relief.

3. During course of hearing of the appeal Ld. Counsel for the appellant Mr. Ashwini Kumar submitted that Respondent Department had applied Rule 2(a) of the General Rules for Interpretation of Customs Tariff to hold the parts/components as complete articles namely Drones, as imported items collectively possess essential characteristics of finished articles and applied prohibition contained in Notification No. 54/2015-22 that prohibits the same from being imported but such a finding is contrary to the judicial pronouncement made at this Tribunal's level in the case of LML Limited Vs. Commissioner of Customs reported in [1999 (105) E.L.T. 718 (Tribunal)],against which the Department had preferred Civil appeal before the Hon'ble Supreme Court that was dismissed, as could be noticed from the order reported in [1999(107)ELTA-119] and the said precedent decision, that attained finality with dismissal of Department's appeal, was followed subsequently in series of cases including K.R. Trading Company Vs. Collector of Customs, Kolkata, reported in [1999(110) ELT 746 (TRI), Wipro Limited Vs. Commissioner of Customs, Chennai reported in 1999(107) E.L.T. 398 (Tribunal)] as well as in Elsimate Electronics Industries Ltd Vs. Commissioner of Customs, Chennai reported in [2002(141) E.L.T. 126 (Tri-Chennai)] and therefore, the issue is no more *res integra* that General Rules for Interpretation cannot be applied to Foreign Trade Policy Matters. To him, such interpretation of Tariff Rules would have been applicable only when components intended to make a final product was presented at the same time for Customs clearance but in the instant case goods have been imported in multiple consignments and also cleared by Customs without any one-to-one correlation.

3.1 Ld. Counsel for the Appellant further submitted that appellant company being authorised manufacturer of Drones has fulfilled definition of manufacturer given under Foreign Trade Policy at Para 11.31 under Chapter-II that includes 'processes and activities'

involved to make, produce, fabricate, assemble, process, bring into existence by hand or by machine a new product having a distinctive name, character or use which shall include also refrigeration, re-packing, polishing, labeling, re-conditioning, repairing re-furbishing, testing, calibrating and/or re-engineering (P-27C) and most of those conditionalities were fulfilled by the appellant when anyone of them including polishing leveling, testing or calibration could also be considered as manufacture under the Foreign Trade Policy and it is acknowledged by the Commissioner of Customs, in his rejection order for release of goods, that appellant was claiming to have been doing activities like calibration, testing, sensor alignment configuration etc. but he was not prepared to accept those as constituting 'Manufacturing' process (Para 3.3).

3.2. To refuse permission for release of seized goods, Ld. Commissioner had also relied upon the Chartered Engineer's certificate in which he formed the opinion that except assembling components by using screw driver, soldering of lift drive/rotor wire, no major task was required to complete the process of the drone manufacturing that has been disputed by the Ld. Counsel for the Appellant by placing his argument on record that there is nothing available on record to suggest that drones were in ready to assemble kits or goods which have been imported over the period of one year prior to seizure. could readily be assembled into a precise number of drones, nor any evidence was placed to the effect that structural components imported alone could be readily assembled to manufacture a functional drone. On the other hand, he relied upon the opinion of IIT Mandi's "Specialised Institute for Study and Research of Drones for unmanned aerial vehicle and clarified through their opinion that imported components do not form a complete or immediately operable drones.

3.3. While going with the Notification No. 54/2015-20 issued by the DGFT that drone components were allowed to be imported free without any condition, he argued that in view of Hon'ble Supreme Court judgment passed in the case of UOI Vs. Tarachand Gupta &Brothers reported in 1983 (13) E.L.T. 1456 (SC) that

Respondent cannot put two consignments together to held a finding that a final product was imported in CKD condition and though it was passed in respect of Motorcycle/Scooter and Motor components, it was specifically held in the said judgment that such condition can be applied against import of complete Motorcycle/Scooter and not against an importer who has a licence to import the parts and accessories (para-14) and when he has to buy tires/tubes, saddles etc. to convert them into Motorcycle or Scooter, such goods cannot be considered as goods imported under CKD condition (Para-25) and since the word CKD i.e. complete knock down condition has never been used in any technical sense, it must be given its ordinary dictionary meaning i.e. "made or constructed" so as to become capable of being knocked-down or taken apart as for transportation: in parts ready to be assembled" (Webster's New International dictionary), as noted in para-12. In the instant case, the same condition applies to the goods imported by appellant which were not completely made or constructed before being knocked-down at the Exporter's level since individual items were ordered to be imported in uneven numbers that varies from 30 numbers of drones PCB units to 910 numbers of Try Charging Hub, as noted in the relied upon documents to Show-cause notice that is annexed to Appeal Paper Book at Page-67.

3.4 Ld. Counsel for the appellant further submitted that they have filed a detailed graphical presentation of the drone with names of components, origin and functional integration and divided the components into three categories, out of which category-A comprising of six items with sub-division namely landing feet/pads, structural brackets, oxalate plastic enclosures, rotating sack, rotating sachet etc. which are fully domestically procured, manufactured and developed components but the same is lost sight of the attention of Chartered Engineer apparently for the reason that seizure was made from the factory and premises of the appellant in which all components of drone were kept for being assembled without any segregation of domestically procured components from imported companies. (57.16).

3.5 Ld. Counsel for the appellant also asserted that the Director General of Civil Aviation (DGCA) being the license Sanctioning Authority had registered appellants' firm as a drone manufacturer having Registration No. EGCA ID; IAEDN 2025000392 and its being a policy making authority at the National level, with Government of Madhya Pradesh having recognised the appellant as drone manufacturer under Madhya Pradesh Drone promotion and Usage Policy as the State Nodal Agency, who have recognized appellants activities as manufacturer, were not consulted by the Customs regarding application of that circular on appellant concerning prohibition nor the authority who issued the circular namely Director General of Foreign Trade was consulted to furnish its opinion but, the Department had applied provision of import of the goods i.e. Rule 2(a) of the General Rules for Interpretation of Custom Tariff, which is not at all sustainable in law and facts, for which the Commissioner's order refusing provisional release of the entire goods including 294 plectra drones in CBU (completely built unit)seized is required to be set aside with consequential relief for such release.

4. Ld. Authoised Representative of the Department Mr. Ram Kumar argued in support of the reasoning and rationality of the rejection order passed by the Commissioner and took us to the justification offered by the Commissioner in denying release of the seized goods including complete drones as it is potentially having implication on public safety, aviation Control and National security for which the doctrine of "Benefit of Doubt" applicable to ambiguous Tariff Classification was not applied to matter involving national security concern. Further, with reference to the CBIC circular No. 35/2017-Customs dated 16.08.2017,which Ld. Counsel for the appellants stated to have been struck down by the Hon'ble Delhi High Court, he argued that provisional release of specific categories of cases including prohibited goods which were specifically denied in that circular was being adopted by the Commissioner, in which case, exercise of their discretion was restricted, and therefore, no error can be noticeable in the order passed by the Commissioner who also

applied Rule 2(a) of the General Rules for Interpretation of Customs Tariff appropriately that needs no interference by this Tribunal. He further referred to the Chartered Engineer's report and submitted that with much clarity, Chartered Engineer had finally opined that the components seized were of drones brought in semi knock-down condition and when put together/assembled can form completely built unit (CBU).

5. We have taken note of the submissions and perused the Appeal Paper Book. Lots of points are noted in the written submissions filed on behalf of the appellants in this appeal filed against denial of provisional release of seized goods including challenge to the Show-cause issued post Provisional Release denial order. It has arguments against placing reliance on the Court of Justice of Europeon Union judgment dated 27.04.2023 and the application of Rules 2(a) of the General Rules for Interpretation concerning simultaneous presentation of parts for customs clearance *vis. a vis.* components /parts required to be covered by single customs declaration but the said judgment is not relied upon by the Commissioner in the provisional release order, though that could be considered as having persuasive value. Appellant also had placed in its written note the effectiveness of Show-cause notice issued after statutory period is over but those being extraneous to the issue before us, instead of going by the arguments laid by the parties, we would only analyse the grounds of rejection available in the provisional release order passed by the Commissioner Customs on dated 16.10.2025 and look into its legality.

6. In his order, ld. Commissioner (Customs) has opined that import of components of the drones are permissible under Notification No. 54/2015-20 and not drones in built-up/complete or semi knock-down conditions, Appellants can be considered to have violated the prohibition order as they have imported sets of component in multiple Bills of Entries across same arrival windows and both the appellants are effectively managed by one Mr. Johan Hyden, who is a Director of the Private Limited Co. as well as proprietor of IZI Proprietorship firm, as revealed from investigation,

through whom goods imported, when taken together, form complete and operational drone system and as per Rule 2(a) of the General Rules of Interpretation of the Customs Tariff, incomplete or unfinished article, having the essential character of complete article shall be classified as complete article itself and since imported items collectively possess the structural and functional characteristics of a finished drone but brought in CKD/SKD condition, such importation being restricted under DGFT Notification No. 54/2015-20, seizure of the same by the Customs Department is a valid measure.

6.1 Contradicting the same Appellants have justified import of those components of drones by two separate entities as valid imports since components are free to be imported except when it was not in knock-down condition. We were taken through Hon'ble Supreme Court's decision passed in the case of Union of India Vs. Tarachand Gupta &Brothers, as reported in *1983(13)1456(SC)* wherein it had categorically explained the words 'completely Knock-down condition' "as made or constructed so as to be capable of being knock-down or taken apart as for transportation in parts ready to be assembled". Further, Hon'ble Supreme Court while affirming this Tribunal's decision in the case of LML Ltd., Vs. Commissioner of Customs as reported in *1999(105)E.L.T. -718* (Tri) by dismissing SLP of the Respondent Department as reported in *1999 (107) E.L.T. A119*, clearly held that General Rules of Interpretation of Schedule to the Customs Tariff cannot be used for interpreting the policy condition under the Foreign Trade Policy. Further, to the appellants, they being manufacturer were permitted to import all components but they have imported certain components through two of their entities and domestically procured other components to assemble drones and DGCA Circular No. 01/2025 dated 30.10.2025 has clearly defined manufacture at para-4(2b)as the performance of task that involves assembling or production, which in the instant case is the (Drone) UAMS system, in conformity with its applicable design including prototype and therefore assembling or production of drone itself would be covered under the definition of manufacturer and being manufacturer of drone they have every right to supply/sale it to its

customers including Indian Defence, State Government Surveillance Agencies etc.

6.2 On close analysis of the above findings and submissions, what could be noticeable is that Appellants have together brought major components of the drones through separate Bills of Entry and it is the observation of the Respondent Department, based on Chartered Engineer's report that those components are sufficient to produce a functional drone while the same is disputed by another report brought by the appellant from an Organisation having more expertise in the field namely Centre for Artificial Intelligence and Robotic, IIT Mandi, though the same is to be considered as weak piece of export evidence as samples were not drawn from the representative sample or with the knowledge and consent of the Department. However, we are only concerned with the undisputed pictorial description of the drone placed on record through additional submission dated 23.12.2025, in which they reiterated their pleading also that some fully domestically procured/manufactured and developed components were also used in the manufacturing of the said drone though the Chartered Engineer only had stated in his report that except soldering of lead drive/rotator and assembling components with screw-driver, no major work was required to be done to the seized components to prepare a drone. Here also from the evidences available on record, it is not very clear that whether only imported components were placed before the Chartered Engineer or all components seized from the factory on past two dates were also produced before him. Moreover, the third seizure was made on Appellants presentation of Bills of Entry whereas it is clearly noted in the order as well as investigation report that few components namely frame, camera, optic system, PCVs, GPS positioning censor etc. were purchased by the other appellant M/s. AZI. Apart from this, as case record reveals, more than 294 completely built drones were placed before the Chartered Engineer but he suggested in his report that items described in 3 invoices were sufficient to prepare a drone as he apparently mistook seizure memo for invoices. Be that as it may, when there is assertion by the Department itself that all components

are not procured through one Bill of Entry or by one of the appellants and when the list of items seized and relied upon as documents annexed to Show-cause as annexure-1, indicates that uneven numbers of item ranging from 30 numbers of drone PCV Unit to 910 Numbers of Try Charging Hub of the drone (Para 67 of Appeal Memo) were found to have been imported in one Bill of Entry No. 7742303 dated 11.01.2025, it cannot just simply be said that those are drones being brought in knocked-down or Semi-Knocked Down conditions without a one to one co-relation and since as per judgment of Hon'ble Supreme Court cited above, it has to be dismantled and being capable of re-assembling to form a complete unit, which is not the case in the present dispute.

7. There is only one supporting evidence available in the form of electronic evidence but it has been refuted by the respondent Department itself. As could be noticed from the Show-cause, M/s. SZ C-fly Tech Company Ltd', had made some email correspondence with the appellants' Company in which it has been stated that by purchase Agreement dated 19.10.2023, appellant had requested the Supplier SZC-Fly to supply whole drone but packaging was required to be done in parts. Though there is evidence also on records available to the effect that the Director of Company had stated in his statement recorder under 108 that they were importing drone components from BC-Fly and another Company, Ld. Authorised Representative Mr. Ram Kumar has submitted the list of suppliers name in Annexure with a copy of letter dated 27.03.2026 received from the concerned Commissionerate to the effect that SZC-FLY Tech Company Limited was not the suppliers in the Bills of Entry under dispute. This being so, such an attempt could have been considered as a 'preparation' only and not Commission of the Act for which no punishment is prescribed under the law, apart from the fact that Ld. counsel for the Appellant has also taken us through the statement of Director of the Appellant Company who had specifically being put with such a query during recording of his statement but he denied having made any final deal with that company (SZ C-Fly) nor the purchase agreement dated 19.11.2023 was acted upon(Appeal

memo page 290). Had it been a case of real Knocked Down condition, we would have gone more in detail to discuss about the re-assemble of things if would amount to manufacture but there is no requirement of such a discussion when goods are demonstratively established to have not been presented in one consignment and the entire import made by appellants, as revealed from sample invoices, are not containing description of the goods which appellants claimed to have domestically procured. To end this discussion we feel it proper to reiterate the valid submission made by ld. Counsel for the Appellant that for interpretation of Foreign Trade Policy Circular, DGFT would be the Appropriate Authority and not the Customs Officer.

8. The second ground of rejection is assigned for not releasing the drones seized is that it is having implications on Public Safety and National Security. In a detailed analysis of these aspects, in para 3.6 of his order, Ld. Commissioner of Customs had observed that benefit of doubt concerning liberal interpretation of DGFT Notification 54/2015-20 cannot be extended in favour of appellant nor the discretion for such provisional release could be extended to them. Before taking up the said issue for noting our observation, it would be worthwhile to reproduce the reasoning assigned by Ld. Commissioner to such refusal for provisional release on the ground of National Security and Public Safety, relevant portion of para 3.6 of order reads:

> "... *the said notification was issued with the explicit objective of protecting national security, defence, and civil aviation integrity. The prohibition on import of drones (other than those imported for R&D, defence or security purposes with specific authorization) is absolute in nature and forms part of a national security framework, not a mere tariff restriction. Therefore, the doctrine of "benefit of doubt" applicable to ambiguous tariff classifications has no application to national security prohibitions. In the instant case, the goods under import constitute complete drone systems in CKD/SKD condition. Allowing such goods to be released under the guise of' components' would directly defeat the purpose of*

the DGFT notification, thereby enabling unauthorized proliferation of aerial-surveillance devices with potential implications for public safety, aviation control and national security. It is a settled principle that when national security interests are involved, liberal interpretation or benefit of doubt cannot be extended to private commercial importers…."

8.1. During course of haring of the appeal, Ld. Counsel for the appellant has not expressively added points in his submission to counter these aspects but in submitting proof of invoices issued to the Indian Defence in the form of Tax Invoice (page 32 onwards upto page 43) of the Appeal Paper Book including invoice issued to Rashtriya Rifle Battalion at Jammu (Page 44) and registration documents issued by the Madhya Pradesh State Electronic Development Corporation regarding drone Project registration certificate (page-53 of additional written submission dated (10.03.2026), he has demonstratively established that appellant is a recognized manufacturer of drones in India and its major clients are Indian Defence and other Governmental Security Agencies. This being so appellant cannot be put in the category of illegal importer of drones in CKD/SKD condition for the purpose of endangering public safety or to hamper National security, since its supply of drones would otherwise tighten the security umbrella. Further the said notification does not contain any statement of object and reason, like that of any legislative Act and therefore, the observation of the Commissioner of Customs that explicit object of such Notification was to protect National Security, Defence and Civil Aviation Integrity cannot be taken to have been an observation made on the basis of any preface applicable to the said notification No. 54/2015-20 but it could be a consideration for issuing such a Notification so as to restrict free sale of drones within the country when under no circumstances, the same restriction would apply to the appellant, as registered and recognized manufacturer of drones engaged in supply to Defence and other Security Establishments of the Government. Therefore, it would be erroneous to observe that

Appellants' act or *Modus-Operandi* would endanger National Security or Public Safety since it it was made without any basis.

9. The third ground stated in the order of the Commissioner denying provisional release is that he had complied with the Circular No. 35/2017-Customs dated 16.08.2017 issued by the CBIC directing Field Formations not to allow provisional release of goods in specific categories of cases including cases where goods are prohibited under Customs Act or any other law for the time being in force and he observed that the instant case before him would squarely fall within the said exemption as drones are prohibited for import under DGFT Notification No. 54/2015-20.

9.1 Ld. Counsel for the Appellant Mr. Ashwini Kumar, refuted the same with regard to the decision of the Hon'ble Delhi High Court in the case of SHANUX Impex Vs. UOI on dated 08.12.2023 in W.P (C).No. 157292023 wherein, the said stipulation contained in Circular No. 35/2017—Customs restricting the discretion of the Authority to release "prohibited goods" had been declared *ultra-virus* of the Customs Act 1962 for which the said circular can never be applied to restrict provisional release of goods which are eligible for such release otherwise.

9.2. We have gone through the said judgment and we observe that relevant para-2 of the circular No. 35/2017-Customs was declared as void and un-enforeceable in law by Hon'ble Delhi High Court in the case of Additional Director General (Adjudication) Vs. M/s. ITS MY Name Private Limited, as reported in 2020;DH-2014-DB and relevant para 51 of the said judgment is reproduced in SHANUX Impex cited supra, as reported in *2024(330) E.L.T.78 (DL),* with further observation that SLP preferred against the said decision has been rejected by Hon'ble Supreme Court (para-7). On further perusal of ITS My Name (Respondent) judgment, it would reveal that there was clear observation that para-2 of Notification 35/2017-Customs was found to be contrary to Section 110A of the Customs Act, as it incorporates limitations on provisional release of seized goods which found no place in the parent statutory provisions i.e. Section 110A

of the Customs Act. This being the observation of Hon'ble High Court and when appellant had demonstratively established that its supplies were meant for Defence and other Governmental Security Agencies that would promote/foster National security instead of breaching the same, and when Ld. Counsel for the Appellant is constantly requesting for early disposal of this appeal so as to enable them to discharge their obligations to make further supply of goods of drones to the Defence against which their pending order is nearing expiry and is under threat of cancellation and when electronic components as well as re-chargeable battery seized in connection with this case are in the nature of out-living its utility, even without its use, at least conditional release of goods in favour of appellant by the Commissioner would have ensured the ends of justice, which he failed to do. Hence we do so.

The Order

10. The appeals are allowed and the order passed by the Commissioner of Customs, Nhava Sheva, Raigad *vide* Order-in-Original No. 07/2025-26/Commr. NS-V/Gr. VB/JNCH dated 16.10.2025 is hereby set aside. Respondent Commissioner is directed to provisionally release the goods forthwith upon receipt of this order in Dasti or otherwise, after execution Indemnity Bond of the equivalent amount with a Surety Bond for the like amount by the importer appellants.

(Order pronounced in the open court on 21.04.2026)

(Dr. SUVENDU KUMAR PATI)
MEMBER (JUDICIAL)

(M.M.PARTHIBAN)
MEMBER (TECHNICAL)

Arti