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IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 20-04-2026

CORAM

THE HON'BLE MR JUSTICE C. SARAVANAN

WP No. 14983 of 2026
AND
WMP Nos. 16205 & 16206 of 2026

M/s.Kalpatru Yarns Private Limited,
Rep by its Director Laxmi Narayan Kothari,
No.396 A, Agraharam Street, Erode,
Tamilnadu 638 001.

..Petitioner(s)

Vs

1. State Tax Officer,
   Roving Squad II,
   Integrated New Commercial taxes building,
   4th floor,S.F.No.400/1,7,8,46,Pudur B
   Village,Erode 638002
2. State Tax Officer,
   Roving Squad V,
   Integrated New Commercial Taxes Building,4th
   Floor, S.F.No.400/1,7,8,46, Pudur B
   Village,Erode 638 002.

3. State Tax Officer,
   Netaji Road Assessment Circle,Erode Zone,
   Erode Division.

..Respondent(s)

PRAYER: Writ Petition is filed under Article 226 of the Constitution of India for issuance of a Writ of Certiorari to call for the records of the second respondent in Show cause notice issued in DRC-01 dated 14.11.2025 and the consequential order of assessment of first respondent passed in

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GSTIN33AACCK365Q1Z3/2023-2024 along with the demand notice issued in DRC-07 dated 18.02.2026 and quash the same as illegal, arbitrary, unjustified and without jurisdiction and pass such further order or other order as this Hon'ble Court may deem fit and proper in the circumstances of the case and render justice.

For Petitioner(s): Mr.V.Sundareswaran

For Respondent(s): Mr.TNC.Kaushik, AGP

ORDER

Mr.TNC.Kaushik, learned Additional Government Pleader takes notice for the Respondent.

2. This Writ Petition is being disposed of at the stage of admission itself with the consent of the learned counsel for the Petitioner and the learned Additional Government Pleader for the Respondents.

3. The Petitioner is before this court against the impugned order dated 18.02.2026 whereby the proposal in Show Cause Notice in DRC 01 dated 14.11.2025 has been confirmed. The challenge to the impugned proceedings are two fold 1) jurisdictional theme and 2) jurisdictional facts.

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4. It is submitted that although 10 defects were pointed out in the impugned Show Cause Notice dated 14.11.2025, proposals in respect of 9 of the defects pointed out in the said show cause notice has been dropped and only in respect of one of defects namely defect No.10, demand has been confirmed and it pertains to Bill Trading Activity.

5. It is the case of the petitioner that the petitioner had purchased the consignments of Cotton yarn from a supplier namely Amarnath Mills who had discharged the tax on the supplies made to the petitioner on the strength of which the petitioner had availed Input Tax Credit.

6. The petitioner had responded to the said Show Cause Notice in DRC 01 vide reply dated 05.02.2026 as far as Defect No.10 is concerned, the reply of the petitioner was as under:-

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Defect 10: Bill Trading activity

The name of the tax payer is not found in the Beneficiaries from Bill traders, it is noticed that the tax payer had made an inward supply from the tax payers who were deemed to be a bill trader which is ascertained through the verification of suppliers list as detailed below:

1.	Year	Name of the Supplier	GSTIN of Supplier	Taxable value	IGST	CGST	GGST	Total
1	2023-24	AMARNATH MILLS	33AADFA7946C1ZR	4907328	0	294440	294440	588880

Reply to Defect 10:

The suppliers mentioned above are registered persons under GST.

We have verified their credentials through the GST portal, including:

- **Active GST registration status** under **Section 22** of the CGST Act, 2017,
- **Proper filing of GSTR-1 and GSTR-3B returns**, and
- **Matching of purchase invoices in our GSTR-2A/2B** reports.

Hence, the supplier is not a bill trader, but an active and compliant taxpayer engaged in genuine trade.

Nature of Transaction and Supporting Evidence

All purchases from the said supplier are supported by genuine documents, including:

- **Tax Invoices** containing all particulars as per **Rule 46 of the CGST Rules, 2017**,
- **E-way bills** (where applicable) generated under **Rule 138**,
- **Proof of payment** through banking channels (RTGS/NEFT/cheque),
- **Receipt of goods** verified through goods inward register, stock records, and consumption reports.

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This clearly establishes that actual movement of goods and consideration payment took place — satisfying the conditions of a valid "supply" under **Section 7 of the CGST Act, 2017**.

GST compliance of Supplier

We have also verified from the **GST portal** that the supplier has:

- **Filed GSTR-1 returns** declaring outward supplies corresponding to our inward supplies; and
- **Filed GSTR-3B returns** and discharged output tax liability on such supplies.

This confirms that the supplier has duly paid tax to the government on the same invoices, ensuring there is no revenue loss to the department.

Copies of relevant GSTR-2A summary, supplier's filing status, **and** invoice-wise reconciliation can be furnished for your kind verification.

As per **Section 16(2)** of the CGST Act, 2017, a recipient is eligible for input tax credit (ITC) if:

- Possesses a **valid tax invoice**,
- Has **received the goods or services**,
- The supplier has **paid the tax** to the government and
- The recipient has **filed returns** under Section 39.

All these **conditions are fully satisfied** in our case.

Therefore, there is no basis to treat the purchase as non-genuine or the supplier as a "bill trader."

Hereby, we have enclosed the supplier's cancellation details, supplier's filing status, invoice-wise reconciliation and Tax invoice copies for your reference.

We request your good selves to drop the proceedings noted in this regard.

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With the above submission I request your good self to drop the proceedings noted in this regard.

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7. Learned Counsel for the Petitioner would submit that even though the petitioner had given all the particulars to substantiate the defence taken in the reply dated 05.02.2026, the respondent has confirmed the demand insofar as the defect No.10. That apart, it is submitted that there is no justification in imposition of penalty under Section 122(1) (vii) of the respective GST. Enactments.

8. The observations of the respondent in the impugned order are as follows:-

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Findings of the Proper Officer:

On verification of records for the assessment year 2023-24, it is observed that the taxpayer had effected inward supplies from certain suppliers who were identified by the department as bill traders, based on intelligence inputs and verification of the supplier list maintained by the Intelligence Wing. Though the name of the taxpayer does not appear in the list of direct beneficiaries, it is noticed that the taxpayer had made inward supplies from suppliers who were found to be issuing invoices without actual supply of goods.

The details of such inward supplies involve a total taxable value of Rs. 4907328.00 and corresponding tax of Rs. 588880.00, as detailed in the defect notice. Accordingly, it was proposed to levy penalty under Section 122(1)(vii) of the CGST Act, 2017 and the TNGST Act, 2017 for receipt of goods covered by invoices without actual supply of goods.

Further, it was also proposed to levy penalty under Section 122(1)(ii) of the CGST Act, 2017 and the TNGST Act, 2017 on the ground that the taxpayer had received only invoices and related documents without actual receipt of goods and had thereafter effected outward supplies. Since the source and cost of goods were not established, the outward supply value was proposed at 110 percent of cost as per Rule 30 of the CGST Rules, 2017.

In reply, the taxpayer contended that the suppliers were registered persons under GST and that their registrations were active during the relevant period. The taxpayer relied upon the possession of tax invoices, matching of invoices in GSTR-2A / 2B, filing of GSTR-1 and GSTR-3B by the suppliers, generation of e-way bills,

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payment of consideration through banking channels to assert that the transactions were genuine and that the suppliers could not be treated as bill traders.

The taxpayer further contended that all conditions prescribed under Section 16(2) of the CGST Act, 2017 had been fulfilled and requested that the proceedings be dropped.

Examination of the Reply

The reply filed by the taxpayer has been carefully examined. While it is not disputed that the suppliers were registered under GST and that invoices were reflected in GSTR-2A / 2B, it is observed that mere possession of tax invoices, reflection in returns, generation of e-way bills, and payment through banking channels do not, by themselves, conclusively establish the genuineness of supply, particularly in cases involving identified bill traders.

It is a settled position that bill-trading operations are often carried out with complete documentation, including invoices, e-way bills, and banking transactions, without actual movement of goods. Therefore, documentary compliance alone cannot be equated with proof of actual supply, unless corroborated by independent and verifiable evidence of physical movement and receipt of goods.

Non-production of Evidence of Actual Movement and Receipt of Goods

It is specifically observed that the taxpayer has failed to produce independent corroborative evidence to establish actual movement and receipt of goods, such as:

- Lorry Receipts / Consignment Notes,
- Transporter GSTIN details and confirmations,
- Freight payment records or debit notes,
- Weighbridge slips evidencing loading and unloading,
- Gate entry registers or third-party inward acknowledgements,
- Transporter or third-party statements confirming movement of goods.

The goods inward register, stock records and consumption statements relied upon by the taxpayer are internal records maintained by the taxpayer and, in the absence of independent corroboration, cannot be accepted as conclusive proof of actual receipt of goods.

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www.taxcode.in

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9. The impugned order has clearly justified invocation of Section122 (1) (vii) after making categorial reference to Section 155 of the respective GST Enactments and Section 16(2) of the respective GST Enactments. The impugned order itself is based on the investigation by the Intelligence Department of the Respondent Department regarding the activity carried on by the said supplier. The findings in the impugned order states that though the name of the tax period does not appear in the list of direct beneficiaries, it was noticed that the petitioner had made inward supplies from the said supplier who was found to be issuing invoices without actual supply of goods.

10. Today when the case was taken up for hearing, learned counsel for the Petitioner sought to demonstrate that seven e-invoices which were issued to the petitioner had also accompanied a lorry receipt which accompanied the goods supplied by the said supplier. The reply of the petitioner in DRC 06 dated 05.02.2026 has not referred to the lorry receipt .

11. The petitioner appears to made out a *prima facie* case on merits as far as physical movements of the goods as the petitioner is also able to establish that each of the tax invoices accompanied e-way bill and the lorry receipt which contains the lorry number for which the lorry receipt has been issued. This ought to have been filed by the petitioner before the respondent. It is a quite

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possible that the supplier may have camouflaged the entire supply with different persons as actual supply while making few genuine supply.

12. The impugned order ought to have discussed as to whether the petitioner had availed input tax credit without actual physical supply of goods. The findings in the impugned order appears to be primarily based on presumption and conjuncture as it records as follows:

The details of such inward supplies involve a total taxable value of Rs. 4907328.00 and corresponding tax of Rs. 588880.00, as detailed in the defect notice. Accordingly, it was proposed to levy penalty under Section 122(1)(vii) of the CGST Act, 2017 and the TNGST Act, 2017 for receipt of goods covered by invoices without actual supply of goods.

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In reply, the taxpayer contended that the suppliers were registered persons under GST and that their registrations were active during the relevant period. The taxpayer relied upon the possession of tax invoices, matching of invoices in GSTR-2A / 2B, filing of GSTR-1 and GSTR-3B by the suppliers, generation of e-way bills, and payment of consideration through banking channels to assert that the transactions were genuine and that the suppliers could not be treated as bill traders.

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13. The cardinal principle is that the demand cannot be confirmed based on assumptions, presumptions and conjunctures as held by the Hon'ble Supreme Court in **Rukumanand Bairoliya** Vs. **The State of Bihar**, AIR 1971 SC 746/(1971) 3 SCC 167. The authorities are bound to examine the records and then come to a fair conclusion as the demand cannot be based on a *ipse dixit* of the Officer.

14. Considering the same, the case is remitted back to the First Respondent to pass a fresh order on merits. The First Respondent is directed to verify whether the lorry numbers and receipts are reflected in the E-Way Bills and E-invoices are actually the vehicles which passed through the toll and thereafter pass appropriate orders.

15. This Writ Petition is disposed of with the above observations. No costs. Connected Miscellaneous Petitions are closed.

20-04-2026

Index: Yes/No
Speaking/Non-speaking order
Neutral Citation: Yes/No

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C.SARAVANAN J.

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To

1. State Tax Officer,
   Roving Squad II,
   Integrated New Commercial Taxes Building,
   4th Floor, S.F.No.400/1, 7, 8, 46,
   Pudur B Village,
   Erode – 638 002.

2. State Tax Officer,
   Roving Squad V,
   Integrated New Commercial Taxes Building,
   4th Floor,
   S.F.No.400/1, 7, 8, 46,
   Pudur B Village,
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3. State Tax Officer,
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