HC-KAR

NC: 2026:KHC:49962-DB
ITA No. 148 of 2026

CNR: KAHC010561492026

IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 15TH DAY OF SEPTEMBER, 2026

PRESENT

THE HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE

AND

THE HON'BLE MRS. JUSTICE K.S. HEMALEKHA

INCOME TAX APPEAL NO.148 OF 2026

BETWEEN:

1. THE PR. COMMISSIONER OF INCOME TAX,
CENTRAL, 3RD FLOOR, C.R. BUILDING,
QUEEN'S ROAD, BENGALURU-560 001.

2. THE DEPUTY COMMISSIONER OF INCOME-TAX,
CENTRAL CIRCLE-3(2),
3RD FLOOR, C.R BUILDING,
QUEEN'S ROAD, BENGALURU-560 001.

...APPELLANTS

(BY SRI. RAVI RAJ Y.V., ADVOCATE)

AND:

M/S. SAMI SABINSA GROUP LTD.,
19(1) & (2), PEENYA INDUSTRIAL AREA,
II PHASE, CHOKKASANDRA VILLAGE,
BENGALURU-560 058.

...RESPONDENT

THIS ITA IS FILED UNDER SECTION 260A OF THE INCOME TAX ACT, PRAYING TO ALLOW THE APPEAL, SET ASIDE THE ORDERS PASSED BY THE INCOME TAX APPELLATE TRIBUNAL, BENGALURU IN IT(TP)A NO.639/BANG/2025 DATED 31.12.2025 FOR ASSESSMENT YEAR 2014-15 ANNEXURE A AND CONFIRM THE ORDER OF THE DRP CONFIRMING THE ORDER PASSED BY THE DEPUTY COMMISSIONER OF INCOME TAX, CENTRAL CIRCLE 3(2), BENGALURU.

CNR: KAHC010561492026

THIS APPEAL, COMING ON FOR ORDERS, THIS DAY, JUDGMENT WAS DELIVERED THEREIN AS UNDER:

CORAM: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE
and
HON'BLE MRS. JUSTICE K.S. HEMALEKHA

ORAL JUDGMENT

(PER: HON'BLE MR. VIBHU BAKHRU, CHIEF JUSTICE)

1. For the reasons stated in the application, I.A No.2/2026, the same is allowed. The delay of 38 days in filing the appeal is condoned.

2. The Revenue has filed the present appeal under Section 260A of the Income Tax Act, 1961 [**Act**] impugning an order dated 31.12.2025 [**impugned order**] passed by the learned Income Tax Appellate Tribunal [**ITAT**] in IT(TP) A Nos. 638 & 639/Bang/2025 in respect of Assessment Years [**AY**]: 2013-14 and 2014-15. The present appeal arises from the impugned order in so far as it relates to IT(TP) A No. 639/Bang/2025 for AY 2014-2015.

3. The revenue has projected the following question of law for consideration of this Court :

> "Whether on the facts and circumstances of the case & in law, the Tribunal is correct in directing to accept internal TNMM and delete the transfer pricing adjustment which is

in violation of section 92 to 92C of Income Tax Act, 1961 and rule 108 [*Sic* rect 10B] of Income Tax Rules, 1962."

4. The Assessee had filed its return of income for the AY 2014-15 on 29.11.2014 declaring NIL income. The return was initially processed under Section 143 (1) of the Act. However, it was subsequently selected for scrutiny and a notice under Section 143 (2) was issued by the Assessing Officer [**AO**] on 29.08.2015. It was found that the Assessee had entered into international transactions with an Associate Enterprise [AE]. Therefore, a reference was made by the AO to the Transfer Pricing Officer [**TPO**] for determining the Arm's Length Price [**ALP**] of the following international transactions :

Manufacturing Segment	Rs.35,35,31,620/-
Guarantee Commission	Rs.16,43,916/-
Total	**Rs.35,51,75,536**

5. The Assessee is engaged in the business of exporting herbal extracts, fine chemicals and speciality chemicals, cosmeceuticals, phytonutrients and probiotics. It has manufacturing facilities in and around Bengaluru. The international transactions involve the purchase of herbal and chemical goods from AE, as well as sale of the products to the AE.

6. Based on the directions of the learned TPO, a draft assessment order was passed. The Assessee challenged the same before the Dispute Resolution Panel [**DRP**], which was dismissed. The Assessee had submitted a transfer pricing study using the Cost Plus Method [**CPM**], establishing that its international transactions were at ALP. The learned TPO rejected the said method and found that the Transactional Net Margin Method [**TNMM**] is the most appropriate method for determining the ALP.

7. The transfer pricing adjustments as directed by the learned TPO were upheld by the learned DRP, and this led the Assessee to file an appeal before the ITAT. The said appeal, IT(TP)A No. 3353/Bang/2018, was considered along with IT(TP)A No.2746/Bang/2017 in respect of the AY 2014-15. The learned ITAT disposed of the said appeals by an order dated 18.02.2022, whereby the matter was remanded to the learned AO/TPO to carry out the analysis in accordance with its directions.

8. The Assessee had also assailed the decision of the learned TPO to use TNMM as the most appropriate method. However, the

Assessee gave up that ground before the learned ITAT. The principal ground urged by the Assesse to challenge the order of the learned TPO is that the learned TPO had erroneously rejected internal comparables and used external comparables. The Assessee claimed that it had similar transactions with non-AEs and the segment results of those transactions ought to have been used as internal comparables instead of external comparables. The learned ITAT accepted the said contention.

9. It is not disputed that where internal comparables are available, that is where transactions similar to the international transactions have been entered into by an assessee with non-AE entities, the same would also serve as a guide to determine whether the international transactions were at ALP. The Revenue does not dispute that in the present case, internal comparables are available. Thus, undisputedly, the same ought to be used for determining the ALP unless the same are found to be unsuitable for some reason. In this context, the learned ITAT remanded the matter to the learned TPO to once again examine the issue of the question of transfer pricing and adjustment.

10. The Revenue did not appeal the said decision. During the said proceedings before the learned TPO pursuant to the remand order, the Assessee furnished a certificate from the chartered accountant certifying the segmental accounts as furnished by the Assessee. However, the learned TPO rejected the said certificate on the ground that it only certified the arithmetical accuracy and not the segmental data. The relevant extract of the certificate as set out by the learned TPO in the order dated 29.01.2024 is reproduced below :

> "We, V.R. Sabnis & Associates, Chartered Accountants have gone through the financial segmental prepared by the management of Sami Labs Limited for AY 2014-15 and certify the correctness of figures and further certify that the key to allocation of expenditure and income are as per the generally accepted rational basis of allocation used in the industry.
>
> This certificate is being issued to verify the accuracy and completeness of the financial segment for AY 2014-15 relevant to FY 2013-14, and the aforesaid facts that have been mentioned in the same."

11. The learned TPO rejected the said certificate for the reasons that are set out in paragraph 9.1 of the said order which is reproduced below :

> "9.1 On perusing this certificate, it is seen that the CA has only certified "correctness of figures" which implies that only the arithmetical accuracy of the figures has been verified

> and the actual audit of segmental revenues and costs has not been carried out. Further, it mentions that the key to allocation is "as per generally accepted rational basis of allocation used in the industry" which also means that the exact basis of allocation has not been audited. This means that from whatever the taxpayer has submitted to the CA, only the arithmetical accuracy has been verified and no audit of segmental data maintained by taxpayer is done."

12. The learned counsel appearing for the Revenue also referred to para 9.4 of the order passed by the TPO which reads as under :

> "9.4 Further, on perusing the segmental margins of AE and non-AE transactions, it is seen that there is a huge gap of 11.32% to AE and 2.42% to non-AE in the certificate submitted by the taxpayer (it is again re-iterated that the segmental financials themselves are unaudited and only arithmetical accuracy of figures is certified in the certificate given) which further raises the question as to the shifting of profits from non-AE to AE segment to show artificially high margin in AE segment in the absence of audited segmental data."

13. On the aforesaid basis, the learned TPO concluded that the Assessee had not provided sufficient data on internal comparables, and accordingly rejected the transfer pricing studies furnished by the Assessee.

14. On appeal before the learned ITAT in the second round, the ITAT faulted the TPO for rejecting the certificate. The learned ITAT had examined the said facts and concluded that the Assessee had

maintained segmental financials for AE and non-AE transactions which were placed before the learned TPO. The segmental details were derived from the audited books of account, and a chartered accountant certified them, confirming their mathematical accuracy and that the allocation followed generally accepted principles.

15. The learned ITAT found that income and sales had been allocated to AE and non-AE segments on an actual basis using invoice-level data. The relevant factual findings of the learned ITAT as set out in the impugned order are reproduced below :

> "36. We find from the records that the assessee has maintained segmental financials for AE and non-AE transactions and has placed the same before the TPO. These segmental details are derived from the audited books of account. A Chartered Accountant has certified the segmental financials, confirming their arithmetical accuracy and linkage with the audited accounts. Merely because the certificate mentions arithmetical accuracy, the same cannot lead to an automatic rejection of the segmental results, especially when the underlying books of account are already subject to statutory audit.
>
> 37. On examination of the factual allocation of income and expenses, we note that the segmental computation of margins placed at page 68 of the paper book clearly explains the basis of allocation. The income from sales has been allocated to AE and non-AE segments on an actual basis using invoice-level data. This is the most reliable method of allocation and leaves no scope for arbitrariness. As regards expenses, we find that the majority of common expenses have been allocated on a net income basis, which is a reasonable and widely accepted allocation key."

16. A plain reading of the chartered accountant certificate, which was rejected by the learned TPO, clearly indicates that it certifies mathematical accuracy. In addition, it also certifies that the allocation is in accordance with "generally accepted rational basis of allocation used in the industry". The learned TPO's finding that only arithmetical accuracy had been verified and the segmental data had not been maintained is clearly erroneous. It is not disputed that the segmental finances certified by the chartered accountant were extracted from the audited accounts, as found by the learned ITAT.

17. The segment financials indicated that the margin from the international transactions was significantly higher (at 11.32%) than the margins of non-AE transactions, which were reported as 2.42%. This clearly reflected that there was no scope for upward transfer pricing adjustment.

18. It is also clear that the learned ITAT faulted the order passed by the learned TPO and its conclusion to reject the internal comparables on the basis of its factual findings regarding the segmental analysis was presented by the assessee. There is no

dispute if comparable internal transactions with non-AE parties are available, the same ought to be preferred over external comparables. The Revenue's grievance essentially relates to factual findings returned by the learned ITAT regarding acceptance of the statement of internal comparables. Although no specific question to that effect has been raised, we find the said findings are founded on material placed and cannot be stated to be perverse.

19. No substantial question of law arises for consideration in the present appeal. The appeal is accordingly dismissed.

Sd/-
(VIBHU BAKHRU)
CHIEF JUSTICE

Sd/-
(K.S. HEMALEKHA)
JUDGE

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List No.: 2 Sl No.: 7