आयकर अपीलीय अधिकरण, हैदराबाद पीठें, हैदराबाद
INCOME TAX APPELLATE TRIBUNAL,
HYDERABAD BENCHES, HYDERABAD

BENCH: B

BEFORE SHRI RAVISH SOOD, HON'BLE JUDICIAL MEMBER
AND
SHRI MADHUSUDAN SAWDIA, HON'BLE ACCOUNTANT MEMBER

ITA 74/HYD/2026 निर्धारण वर्ष/Assessment Year: **2017-18**		
MYTRAH VAYU (BHIMA) PRIVATE LIMITED 8-2-326/A/2/A, FIRST FLOOR, ROAD NO 3, BANJARA HILLS, HYDERABAD-500034, TELANGANA	**Vs.**	**DCIT, CIRCLE-5(1)** IT TOWERS, MASAB TANK HYDERABAD-500028, TELANGANA
अपीलार्थी **Appellant**		प्रत्यर्थी **Respondent**
Permanent Account Number of Assessee:		**AAICM0167D**
अपीलार्थी द्वारा/Appellant represented by:	**Shri Ravi Bharadawaj, CA**	
प्रत्यर्थी द्वारा/Respondent represented by:	**Shri Waseem UR Rehman, CIT-DR**	

सुनवाई की तारीख / Date of conclusion of hearing:	**16-07-2026**
घोषणा की तारीख / Date of pronouncement:	**13-10-2026**

आदेश / ORDER

PER RAVISH SOOD, JM:

The present appeal filed by the assessee company is directed against the order of the CIT(A), NFAC, Delhi dated 07.01.2026, which in turn arises from the assessment order passed by the Assessing Officer under Section 143(3) of the Income-tax Act, 1961 (for short, "the Act") dated 23.12.2019 for the assessment year (AY) 2017-18. The assessee company has assailed the impugned order on the following grounds of appeal before us:

> "1) On the facts and circumstances of the case, the Assessment order u/s 143(3) is grossly erroneous and bad in law.

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2) The Ld Assessing officer / Commissioner (Appeals) has erred in law and in the facts and circumstances of the case in making/confirming an addition of Rs.62,40,00,000 u/s 56(2)(viib) read with rule 11UA(2), disregarding the submissions made by the assessee and by incorrectly rejecting the valuation report of the independent merchant banker.

3) The Ld Assessing officer / Commissioner (Appeals) ought to have noted that rejection of the valuation report of the independent merchant banker on extraneous grounds such as general and customary disclaimers given by the valuer is not correct and tenable in law.

4) The Ld Assessing officer/Commissioner (Appeals) ought to have also noted that the valuation is made as of a date based on the facts and circumstances as available on that date and hence such valuation report cannot be rejected on the basis of subsequent actual results achieved by the company.

5) The Ld Assessing officer / Commissioner (Appeals) ought to have noted that the method of valuation viz DCF method is the choice of assessee and a different method cannot be adopted by the Assessing officer.

6) The Ld Assessing officer/Commissioner (Appeals) ought to have noted that the valuation report issued by the independent merchant banker is binding as laid down by the rule 11UA(2)(b) and the Assessing officer cannot reject or redo the same.

7) The Ld Assessing officer / Commissioner (Appeals) grossly erred in disregarding the judicial precedents in the case of Assessees group company with same facts

8) The Ld Assessing officer / Commissioner (Appeals) grossly erred in appreciating the fact that section 56 shall not apply when there is no change in the shareholding pattern

9) The Ld Assessing officer/Commissioner (Appeals) erred in law and in facts and circumstances in making made disallowance of an amount of Rs.2,01,09,442 u/s. 14A of the Act without taking into account of the facts and circumstances, and without taking into account the applicable provisions of the Act.

10) The Ld. Assessing officer ought to have noted that as held in applicable precedent cases law no disallowance u/s. 14A can be made in the year in which no exempt income is held by the Assessee.

11) The Ld Assessing officer/Commissioner (Appeals) has erred in the facts and circumstances of the case in disallowing proportionate interest of Rs.12,90,000 u/s 36(1)(iii) without taking into consideration the submission made by the Assessee that effectively no interest expenditure has been claimed by the Assessee and hence the question of disallowance u/s 36(1)(iii) does not arise.

12) The Ld Assessing officer/Commissioner (Appeals) has erred in the facts and circumstances of the case in making addition of Rs.9,74,90,000 as prior period expenditure u/s. 37(1) without considering the fact that the said amount of interest though computed with reference to the period relating to earlier years is in fact an expenditure allowable in the current

year since the claim for interest agreed to and settled between the parties only during the current year and the expenditure is crystalized, accrued and arose only during the current year.

13) The Ld Assessing officer/Commissioner (Appeals) ought to have also noted that the expenditure under consideration has not been claimed or allowed as a deduction in any of the earlier years and further since the genuineness of the expenditure is undisputed, the same is allowable in any one of the years, particularly in the current year since the interest expenditure accrued and arose in the current year.

14) The Appellant craves leave to add to, alter, amend, modify, substitute, delete and rescind all or any of the grounds of appeal on or before the final hearing."

2. Succinctly stated, the assessee company filed its original return of income for AY 2017-18 on 30.10.2017, declaring its income at Rs. Nil and current year loss of Rs. 20,61,25,032/-. Subsequently, the assessee company filed a revised return of income on 23.01.2018 declaring total income at Rs. Nil and current year loss of Rs. 16,46,28,270/-. Another revised return was filed on 06.02.2018 declaring total income at Rs. Nil and current year loss of Rs. 16,46,28,270/-. The assessee's return of income was processed under Section 143(1) of the Act. Subsequently, the assessee's case was selected for scrutiny under CASS, and a notice under Section 143(2) of the Act, dated 04.07.2018, was issued.

3. During the course of the assessment proceedings, the AO, on a perusal of the financials of the assessee company, observed that during the subject year the assessee company had allotted 1,56,00,000 equity shares at a value of Rs. 50/- per share, comprising, viz. (i) face value of Rs. 10/- per share; and (ii). share premium of Rs. 40/- per share. The AO issued a show-cause notice (SCN) dated 25.10.2019, calling upon the assessee company to explain as to why the provisions of Section 56(2)(viib) r.w. Rule 11UA(2)(a) may not be invoked in its case, as it had received share premium of Rs. 62,40,00,000/- (Rs. 40/- per share) on 1,56,00,000 shares issued during the year under consideration. The assessee company was also called upon to justify the share premium based on supporting documentary evidence.

4. In reply, it was submitted by the assessee company that it was engaged in the principal activity of generating and selling electricity from wind energy farms and was engaged in the construction of wind-based power plants with a capacity of 74.4 MW situated at Saval Sang, Indi Taluk, Bijapur District, in the State of Karnataka, and was yet to commence its commercial operations. It was further submitted that it had issued 1,56,00,000 equity shares at a fair market value (FMV) of Rs. 50/- per share to its holding company, viz. Mytrah Energy (India) Private Limited, for which it had obtained a valuation report from a merchant banker, i.e. M/s Karvy Investors Services Limited, which was enclosed along with the submissions. The assessee company submitted that the FMV of its unquoted equity shares was determined using the DCF method, as it is one of the widely accepted methods for determining the FMV of a business based on the value of cash flows the business is expected to generate in the future. In support of adoption of the DCF method, the assessee company submitted viz. (i) it was based upon the expected future cash flows of a company which would determine the investor's actual return; (ii) it was based on expectations of performance specific to the business and was not influenced by short-term market conditions or non-economic indicators; and (iii) it was not as vulnerable to accounting conventions like depreciation and inventory valuation in comparison with other techniques/approaches, since it was based on cash flows rather than accounting profits. It was further submitted that, as per the ICAI's Technical Guide on Share Valuation, cash-flow projections play a pivotal role in the DCF method, and should reflect management's best estimates, considering various macro- and micro-economic factors affecting the business.

5. Coming to the facts involved in its case, the assessee company submitted that it was incorporated for setting up 31 nos. of GE turbines of 2.4 MW each, aggregating to 74.4 MW of wind-based power project at Saval Sang, Indi Taluk, Bijapur District, in the State of Karnataka, considering the overall project feasibility, viability and incentives being offered under the policy in the State of

Karnataka, with an estimated total project cost of Rs. 578.54 crores. It was submitted that, as on the valuation date, the assessee company was in the advanced stage of materializing various commercial agreements/rights, viz. EPC contract, term loan sanction, power purchase agreement (PPA), etc., which provided a reasonable basis for positive cash-flow projections for valuation of its equity shares. Elaborating further, the assessee company submitted that there were certain qualitative factors which were significant in its case for valuation of its unquoted equity shares and for providing cash-flow projections, viz. (i). the project was backed by the Mytrah Group brand name, which already had an installed wind capacity of 671 MW as on 31.03.2016; (ii) the EPC agreement was in the advanced stage of negotiations; (iii) the project had been appraised by a consortium led by Power Finance Corporation; (iv) the PPAs were in the advanced stage of discussion with BESCOM; and (v) the Plant Load Factor (PLF) factor for Saval Sang was 29.9%. It was also submitted that the investment in the present case was made by its holding company in the 100% subsidiary company as part of its contribution of capital, as generally required by financial institutions, which was contributed partly as share capital and partly as share premium. Further, it was submitted that the valuation of power company shares was relatively less susceptible to assumptions, as most key assumptions and parameters were available in the public domain and were based on industry parameters. Also, the assessee company submitted that the project negotiations with vendors, O&M parties, banks and financial institutions were at an advanced stage of discussions and that the information specific to the project was taken into consideration in the merchant banker's valuation certificate.

6. However, the aforesaid explanation of the assessee company did not find favor with the AO. It was observed by him that the assessee company had submitted a valuation certificate issued by the merchant banker, viz. M/s Karvy Investors Services Limited, wherein it was reported that valuation analysis of Mytrah Vayu Bhima Private Limited, i.e. the assessee company, had been carried

out based on the DCF method and that the FMV of the equity share as on 01.03.2017 was determined at Rs. 50.61/- per share. The AO observed that the valuation made by the merchant banker was not tenable, as it had adopted substantially higher projections in respect of profit before tax (PBT) for the assessment years 2016-17 and 2018-19, which did not match with the actual figures reflected by the assessee company in its financials, there being a substantial difference between the projected and actual figures. It was further observed that the FMV of the unquoted equity shares of the assessee company based on the DCF method, as per the valuation certificate issued by the merchant banker, could not be taken into account, as the certificate had been prepared on the basis of the audited and projected accounts of the company and the information made available by the assessee company. Also, the AO was of the view that the valuation certificate issued by the merchant banker had estimated cash flows for the life of the project and had not assumed any growth, as the valuation report categorically stated that no growth was assumed. The AO further held a firm conviction that the assessee company could not extricate itself from the correctness and completeness of the valuation certificate issued by the merchant banker, as a professional, on the basis of data provided by the assessee company itself. It was also observed by the AO that the merchant banker had worked out the share premium at Rs. 40.61/- per share based on hypothetical figures without any proper basis, and contrary to the facts and circumstances of the case. It was further observed by the AO that any increase in the asset side of the balance sheet would be the result of either the profit earned during the period, gain made on sale of assets, or addition of capital only, and there could not be any isolated increase in working capital without a corresponding increase in liabilities, either long-term or short-term. The AO was of the view that the assessee company had presented a masked picture under the permitted valuation rules by providing hypothetical figures, which were erroneously certified by the merchant banker. Based on his aforesaid observations, the AO concluded that as the valuation

certificate produced by the assessee company was not reliable and was not based on the actual facts and figures of the assessee company, the same did not merit acceptance and was liable to be rejected.

7. Apart from that, the AO observed that the projected profit before tax (PBT) for the assessment years 2016-17, 2017-18 and 2018-19 under the DCF method, as compared with the actual corresponding net profit for the said years, were at substantial variance, which was culled out by him as under:

Asst. Year	PBT as per the DCF	PBT as per RoI
2016-17	2.14	(56.97)
2017-18	6.12	(11.36)
2018-19	5.85	(6.00)

Accordingly, the AO observed that the fluctuating projections, which were actually lower than the projected values, and the financials exhibited disuniformity in each subsequent year, contrary to the assumption taken into consideration by the assessee company regarding the business expected to be generated in the coming years. Thus, the AO, based on his aforesaid deliberations, observed that the assessee company had adopted an unrealistic and unreliable valuation under the DCF method.

8. Thereafter, the AO, based on his aforesaid observations that the assessee company had valued its unquoted equity shares at a value much higher than the FMV, carried out the valuation of the shares as per the NAV/book-value method, which, as per his calculations, worked out at (-) Rs. 85.32/- per share. For the sake of clarity, the calculation of the NAV/book value as carried out by the AO is culled out as under:

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Book value of the assets in the balance sheet		5690.92
Less	Any amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under	--
	Any amount shown in BS as asset including the unamortized amount of deferred expenditure which does not represent the value of any asset	--
A		5690.92
Book value of liabilities shown in the balance sheet but not including the following amounts, namely		5690.92
Including:	The paid up capital in respect of equity shares	
	The amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company	
	Reserve and surplus by whatever name called , even if the resulting figure is negative other than those set apart towards depreciation.	
	Any amount representing provision for taxation, other than amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under the Income-tax Act, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto.	
	Provision made for meeting liabilities other than ascertained liabilities	
	Any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares.	
Less:	Non-Current Liabilities –Borrowings	5483.24
	Current liabilities	758.78
		-551.1

- FMV of unquoted equity shares =(A-L)/PE x (PV)Per share value= (-35.32)
- In view of negative balance arrived while doing the calculation of net share value, hence the Value of the share is restricted to face value @ Rs.10/- only

Accordingly, the AO, taking cognizance of the fact that the assessee company had issued shares at a premium of Rs. 40/- per share, concluded that the amount of Rs. 40/- per share so received was over and above the FMV during the year under consideration, and made an addition of the aggregate amount of Rs. 62,40,00,000/- (Rs. 40/- per share X 1,56,00,000 shares issued during the year) under Section 56(2)(viib) r.w. Rule 11UA(2)(a) of the Rules.

9. Apart from the above, the AO observed that during the subject year the assessee company had made investment in equity shares of its subsidiaries, which, as per the observations of the AO, stood at Rs. 3,374.81 million and Rs. 1,729.71 million for the assessment years 2016-17 and 2017-18, respectively, with a view

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to earning/yielding exempt income. It was observed by the AO that, as per the "Notes to accounts", the assessee company had lower reserves and surplus of Rs. 41.21 million. The AO further observed that the assessee company had debited interest expenses of Rs. 22,00,08,135/- towards borrowed funds. Accordingly, the AO formed a conviction that the assessee company had utilized its borrowed funds for making the aforesaid investments and called upon it to explain as to why disallowance of the expenses corresponding to earning of exempt income may not be made in its case under Section 14A r.w. Rule 8D.

10. In reply, the assessee company submitted that it had not made any additional investment in subsidiaries during the current financial year. It was further submitted that, insofar as the investment in compulsorily convertible debentures (CCDs) was concerned, there had been a change in the value of Rs. 111.75 million on account of fair-value change and the same was credited to the profit and loss account under the head "Other Income – Interest Income – Compulsorily Convertible Debentures", which had been done in accordance with Ind AS applicable to the assessee company. Elaborating further, it was submitted that the aforesaid interest income was excluded from the income in the income-tax return filed by the assessee company, as the same was not real income but only a notional income recognized in the financial statements in accordance with Ind AS. Apart from that, the assessee company submitted that the interest on CCDs was taxable as income for income-tax purposes and was not exempt from tax. Insofar as the investment in equity shares was concerned, the assessee company submitted that it had not earned any dividend income or any other income that was exempt from tax, nor did it intend to earn any income that was exempt from tax. Accordingly, it was submitted that, in the backdrop of the aforesaid facts, no disallowance under Section 14A r.w. Rule 8D was warranted in its case, as there was no exempt income earned during the current financial year.

11. However, the aforesaid explanation of the assessee company did not find favour with the AO, who worked out the disallowance under Section 14A at Rs. 2,01,09,442/-The AO further relied upon CBDT Circular No. 5/2014 in F. No. 225/1/2013-ITA-II, dated 11.02.2014, as per which, according to him, even where the taxpayer in a particular year had not earned any exempt income, disallowance was capable of being made under Section 14A r.w. Rule 8D. Accordingly, the AO, based on his aforesaid observations, made a disallowance of Rs. 2,01,09,442/- under Section 14A r.w. Rule 8D.

12. The AO further observed that during the subject year the assessee company had given loans/advances to its related parties to the tune of Rs. 1,07,50,000/-. It was observed that the assessee company had borrowed funds from others and paid interest of Rs. 22,00,08,135/- during the year under consideration. The AO, taking cognisance of the fact that, on the one hand, the assessee company was paying interest on borrowed funds, while on the other hand it had given interest-free advances to its group entities, called upon the assessee company to explain as to why the interest corresponding to the interest-free advances given to the group concerns may not be disallowed.

13. As the explanation of the assessee company did not find favour with the AO, he held a conviction that the assessee company could not establish the nexus between the loans and advances given to the sister/other concerns from its reserves and surplus. Accordingly, it was inferred by him that the subject amounts were advanced to the group entities out of its borrowed funds, on which he worked out the disallowance of proportionate interest expenditure on the said interest-free loans and advances of Rs. 1,07,50,000/- at the rate of 12%, resulting in a disallowance of Rs. 12,90,000/- under Section 36(1)(iii) of the Act.

14. The AO further observed that a perusal of the financials of the assessee company revealed prior-period interest expenses of Rs. 9,74,90,000/-, which were relatable to the year prior to the subject year but were debited to the profit and

loss account. The AO, observing that the expenditure pertained to the prior period and was paid towards interest expenses which were debited to the profit and loss account for the year under consideration, held that the same was not allowable as an expenditure for computing the income of the assessee company for the year under consideration. It was observed that the assessee company's claim was not allowable, as these expenses belonged to the prior period, i.e., before the previous year 2016-17. The AO further observed that, as the assessee company maintained its books of account on the mercantile system, prior-period expenses could not be allowed in the year under consideration, as such expenses were allowable on an accrual basis. Therefore, expenditure relating to a prior period could be allowed only if the liability had crystallized during the year. The AO, referring to the mercantile system of accounting, observed that the assessee company had to establish that these liabilities pertained to the preceding years but actually crystallized during the year under consideration. However, it was observed that, in the case before him, the amount of expenditure had accrued and was incurred by the assessee company in the preceding previous year and, therefore, the deduction claimed for the same could not have been claimed during the year under consideration. Apart from that, the AO observed that as per the matching principle of accounting, expenditure should be matched with the income of that year in which income was earned. Accordingly, the AO, based on his aforesaid observations, disallowed the assessee's claim for prior-period expenses under Section 37(1) of the Act amounting to Rs. 9,74,90,000/-.

15. The AO, based on his aforesaid deliberations, vide his order passed under Section 143(3) of the Act, dated 23.12.2019, determined the income of the assessee company at Rs. 63,76,25,530/-.

16. Aggrieved, the assessee company carried the matter in appeal before the CIT(A), but without success.

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17. The assessee company, aggrieved with the order of the CIT(A), has carried the matter in appeal before us.

18. We have heard the Ld. Authorised Representatives of both parties, perused the orders of the authorities below and the material available on record, as well as considered the judicial pronouncements pressed into service by them.

19. We shall first take up the addition of Rs. 62,40,00,000/- made by the AO under Section 56(2)(viib) r.w. Rule 11UA(2) of the Rules on account of alleged excess share premium received by the assessee company.

20. As is discernible from the assessment order, the assessee company had issued 1,56,00,000 equity shares of face value of Rs. 10/- each at a premium of Rs. 40/- per share, i.e. at an aggregate issue price of Rs. 50/- per share. The assessee company had supported the valuation of its unquoted equity shares by a valuation report obtained from a merchant banker, wherein the FMV of the shares as on 01.03.2017 was determined at Rs. 50.61/- per share under the DCF method.

21. Before adverting to the correctness of the valuation, we find it appropriate to first examine the peculiar nature of the transaction itself. Admittedly, it is a matter of record that Mytrah Energy (India) Private Limited was the holding company of the assessee company and held 100% of the assessee company's share capital. The 1,56,00,000 unquoted equity shares in question were allotted by the assessee company to the said holding company itself. Thus, the transaction was not between the assessee company and an independent or unrelated third-party investor. Rather, the subscriber was the existing 100% shareholder of the assessee company. Consequently, the allotment of further shares did not result in any change in the ultimate ownership or control of the assessee company.

22. In this context, the applicability of the deeming fiction contained in Section 56(2)(viib) of the Act assumes significance. We may herein observe that the provision was introduced as an anti-abuse measure to address cases where closely held companies received consideration for the issue of shares in excess of the fair

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market value. However, in a case where the entire share capital of the subsidiary is already held by the subscriber company, and the additional shares are also allotted to that very 100% holding company, the transaction stands on a materially different footing. We say so, for the reason that in such a situation there is no independent investor, no alteration in the ultimate beneficial ownership and no transfer of economic interest to an outsider. We find that the coordinate Bench of the Tribunal in **KBC India Pvt. Ltd. vs. ITO, ITA No. 9710/Del/2019, order dated 02.11.2022**, considered a transaction involving allotment of shares by a wholly-owned subsidiary to its holding company and examined the applicability of Section 56(2)(viib) in the said context. The Tribunal, taking into consideration the nature and object of the provision, held that the deeming fiction could not be mechanically applied to a transaction between a holding company and its wholly-owned subsidiary where no outsider was benefited by the transaction. The aforesaid principle was also reiterated by the coordinate Bench in **BLP Vayu (Project-1) Pvt. Ltd. vs. PCIT, ITA No. 4895/Del/2019, order dated 31.05.2023**. In the said case, it was observed that as the shares had been allotted to the 100% holding company, the transaction had to be viewed holistically, particularly when there was no change in the ultimate interest or control in the subsidiary company. Further, the same principle has also been followed by the **ITAT, Delhi** in **Rugby Regency Pvt. Ltd. vs. ACIT, ITA No. 653/Del/2019, order dated 25.01.2024**, wherein the coordinate Bench considered the allotment of shares at premium to a 100% holding company and examined the applicability of Section 56(2)(viib) in the context of the relationship between the subscriber and the issuing company.

23. We also take note of the decision in **ITO vs. Solitaire BTN Solar Pvt. Ltd. (2024) 164 taxmann.com170 (Delhi)**, wherein the Tribunal considered the allotment of shares to a wholly-owned 100% holding company and observed that, where the entire shareholding was already held by the subscriber company, any alleged benefit arising from the premium would effectively accrue to the same

shareholder which already possessed the entire economic interest in the assessee company.

24 Considering the aforesaid judicial reasoning, we are of the view that, as in the case before us, the entire consideration for the shares was received from the existing 100% holding company, viz. Mytrah Energy (India) Private Limited, thus, there was no outside investor and no dilution or alteration of the ultimate beneficial interest in the assessee company. In such circumstances, applying the deeming fiction of Section 56(2)(viib) so as to treat the alleged excess share premium received from the 100% holding company as income of the assessee company would, in substance, result in bringing to tax in the hands of the wholly-owned subsidiary an amount received from its own 100% shareholder. In our view, such an interpretation would extend the deeming provision beyond the mischief which it was intended to address. We, therefore, hold that on the peculiar facts of the present case, where the shares were allotted by the assessee company to its 100% holding company, the provisions of Section 56(2)(viib) cannot be invoked merely on the ground that the shares were issued at a premium.

25. Alternatively, we find that the impugned addition is even otherwise unsustainable on the issue of valuation. As observed hereinabove, the assessee company exercised the option to adopt the DCF method prescribed under Rule 11UA(2) of the Rules and obtained a valuation report from a merchant banker, viz. M/s Karvy Investor Services Limited, as per which the FMV was determined at Rs. 50.61/- per share, as against the actual issue price of Rs. 50/- per share. Thus, as per the valuation furnished by the merchant banker, the issue price of Rs. 50/- per share was, in fact, below the FMV of Rs. 50.61/- per share.

26. We find that the AO rejected the DCF valuation of the unquoted equity shares of the assessee company primarily on the ground that the projections made by the merchant banker did not correspond with the actual financial results subsequently achieved by the assessee company. In our considered view, such an

approach does not merit acceptance and thus cannot be sustained. We say so because the very nature of the DCF method is that the valuation is based on estimated future cash flows projected as of the valuation date. We are of the view that as a projection is necessarily an estimate of the future based upon the information, circumstances and expectations prevailing at the relevant point of time, the subsequent actual results cannot, by themselves, render the projections erroneous or establish that the valuation was unreliable on the valuation date.

27. Coming to the facts of the present case, the assessee company had placed before the AO various factors which supported the projections adopted for the DCF valuation, viz., the Mytrah Group brand, the installed wind capacity of the group, the advanced stage of the EPC agreement, project appraisal by a consortium led by Power Finance Corporation, negotiations regarding PPAs with BESCOM, the project-specific PLF and the advanced stage of negotiations with vendors, O&M parties, banks and financial institutions. We find that a perusal of the record reveals that the AO has not brought any material on record to demonstrate that the aforesaid factual circumstances did not exist as on the valuation date or that the projections supplied to the merchant banker were fabricated or otherwise incapable of being relied upon. Insofar as the subsequent variation between projected and actual results is concerned, the same, in our view, may constitute a basis for examining the reasonableness of the projections, but it cannot by itself authorise the AO to discard the prescribed DCF method and substitute another method of valuation of his own choice.

28. We find that Rule 11UA(2), as applicable to the year under consideration, prescribed alternative methods for determination of FMV of unquoted equity shares, including the DCF method. In our view, once the assessee company had exercised the prescribed option and furnished a valuation report from a merchant banker, the AO could not substitute the NAV/book-value method merely because

he was of the view that the projected figures were excessive or because subsequent actual results were different.

29. We find that in the present case before us the AO has not brought on record any independent valuation report demonstrating that the FMV of the shares as on the valuation date was below Rs. 50/- per share. Rather, on the contrary, the valuation report furnished by the assessee company determined the FMV at Rs. 50.61/- per share, which was higher than the actual issue price of Rs. 50/- per share.

30. We are of a firm conviction that the AO's determination of the value of the shares under the NAV/book-value method was not justified when the assessee company had exercised its option of adopting the DCF method under Rule 11UA(2). We say so for the reason that the AO could not substitute a different prescribed method merely because he was not satisfied with the assumptions adopted by the assessee's valuer. Our aforesaid view is supported by the judgment of the **Hon'ble High Court of Delhi** in the case of **Agra Portfolio Pvt. Ltd. v. Pr. CIT (2024) 464 ITR 348 (Delhi)**. In the said case, the Hon'ble High Court considered an identical issue where the assessee company had adopted the DCF method under Rule 11UA(2), whereas the AO rejected the valuation and substituted the NAV method. The Hon'ble High Court held that the option and choice of valuation method under Rule 11UA(2) is vested with the assessee. The Hon'ble Court further held that although the AO may, for reasons recorded, doubt or reject the valuation furnished by the assessee, the statute does not empower him to independently evaluate the value of unquoted equity shares by adopting a valuation method different from the method chosen by the assessee. Also, the aforesaid principle has subsequently been affirmed by the **Hon'ble High Court of Himachal Pradesh** in **Pr. CIT v. I.A. Hydro Energy (P.) Ltd. (2025) 477 ITR 344 (HP)**. In that case also, the assessee had adopted the DCF method for valuing its unquoted equity shares, and the AO rejected it and substituted the NAV

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method. The Hon'ble High Court upheld the concurrent findings of the CIT(A) and the Tribunal and specifically observed that the AO had no jurisdiction to substitute the NAV method once the assessee had exercised its option of adopting the DCF valuation method under Rule 11UA(2). Thus, the legal position which emerges from the aforesaid judgments of the Hon'ble High Courts is that the AO is not denuded of his power to examine the valuation report furnished by the assessee. Although the AO may scrutinise the assumptions, projections and supporting material forming the basis of the valuation and, for cogent reasons, may even reject the valuation so furnished but, having regard to the statutory scheme of Rule 11UA(2), he cannot substitute the method of valuation chosen by the assessee with another method of his own choice.

31. We, thus, applying the aforesaid legal position to the facts of the present case, are of the firm conviction that as the assessee company had exercised its option to adopt the DCF method and obtained a valuation report from an independent merchant banker, as per which the fair market value (FMV) of the unquoted equity shares was Rs. 50.61/- per share, which was higher than the issue price of Rs. 50/- per share, the AO, instead of examining the valuation within the framework of the DCF method, had wrongly rejected the said method primarily by comparing the projections with the actual results and substituted the same by that arrived at by him as per the NAV method. In our view, such substitution of the DCF method with the NAV method is contrary to the ratio laid down by the **Hon'ble High Court of Delhi** in **Agra Portfolio Pvt. Ltd. v. Pr. CIT (2024) 464 ITR 348 (Delhi)** and the **Hon'ble High Court of Himachal Pradesh** in **Pr. CIT v. I.A. Hydro Energy (P.) Ltd. (2025) 477 ITR 344 (HP)**. Apart from that, we are of the view that the fact that the actual financial performance of the assessee company subsequently differed from the projections made at the time of valuation cannot, by itself, justify changing the prescribed method of valuation. We say so because the DCF method necessarily involves estimating future cash flows based on information, expectations, and commercial circumstances prevailing as on the

valuation date. As observed hereinabove, in the present case, the valuation was supported by several commercial factors prevailing as on the relevant date, including the advanced stage of EPC negotiations, sanction of term loan, advancement of the PPA arrangements with BESCOM, appraisal of the project by Power Finance Corporation and the expected plant load factor of 29.9%.

32. We, thus, in terms of our aforesaid deliberations, are of the considered view that the addition of Rs. 62,40,00,000/- is unsustainable both on the ground that the shares were allotted to the 100% holding company and, alternatively, on the ground that the AO was not justified in rejecting the DCF valuation and substituting the NAV/book-value method. Accordingly, the addition of Rs. 62,40,00,000/- is deleted. The **Grounds of appeal Nos. 2 to 8** are allowed in terms of our aforesaid observations.

33. We shall now advert to the disallowance of Rs. 2,01,09,442/- made by the AO under Section 14A r.w. Rule 8D.

34. We find on a perusal of the orders of the authorities below that the assessee company had not earned any dividend income or any other income exempt from tax during the year under consideration. The assessee company had specifically submitted before the AO that no exempt income was earned during the year. However, the AO had relied upon CBDT Circular No. 5/2014 dated 11.02.2014, and proceeded to hold that disallowance under Section 14A could be made even where no exempt income had been earned during the year.

35. We have given our thoughtful consideration to the aforesaid issue, and find substance in the claim of the Ld. AR. As stated by the Ld. AR, and rightly so, as per the pre-amended Section 14A of the Act, i.e., as was available on the statute prior to its amendment vide the Finance Act, 2022 w.e.f 01.04.2022, in the absence of any exempt income, no disallowance u/s.14A of the Act could have been made in the hands of the assessee company. Our aforesaid view is fortified by the judgment of the **Hon'ble High Court of Madras** in the case of

Commissioner of Income Tax Vs. Chettinad Logistics Pvt. Ltd. (2017) 248 Taxman 55 (Mad.). The Special Leave Petition (SLP) (Civil) No.16194 of 2018 filed by the department before the Hon'ble Apex Court against the aforesaid order of the Hon'ble High Court of Madras in the case of CIT vs. Chettinad Logistics Pvt. Ltd. (supra), had thereafter been dismissed by the **Hon'ble Apex Court** in **CIT Vs. Chettinad Logistics (P) Ltd. (2018) 95 taxmann.com 250 (SC)**. Rather, we find that even the review petition filed by the revenue had also been dismissed by the Hon'ble Apex Court vide its order passed in **Commissioner of Income Tax (Central) Vs. M/s. Chettinad Logistics Pvt. Ltd. (2019) 105 CCH 226 (SC)**. Also, we find that the Hon'ble Apex Court had taken the same view in the case of **Principal Commissioner of Income Tax Vs. Oil Industry Development Board (2019) 262 Taxman 102 (SC)**, wherein the order of the **Hon'ble High Court of Delhi** in the case of **Principal Commissioner of Income Tax Vs. Oil Industries Development Board (2018) 101 CCH 452 (Del)** was approved.

36. Considering the fact that the issue involved in the present appeal is no more res-integra pursuant to the aforesaid judgments of the Hon'ble Supreme Court, the claim of the Ld. AR that no disallowance u/s.14A of the Act in the absence of any exempt income could have been made in the case of the assessee company, merits acceptance.

37. Before parting, we may herein observe, that though the legislature vide its amendment made available on the statute by the Finance Act, 2022 had inserted an “Explanation” to Section 14A of the Act, as per which, notwithstanding anything to the contrary contained in the Act, the provisions of Section 14A shall apply in a case where the income, not forming part of the total income under the Act, has not accrued or arisen or has not been received during the subject year and the expenditure has been incurred during the said previous year in relation to such exempt income, but the same is effective from April 1, 2022 and cannot be

presumed to have retrospective effect. Our aforesaid view is fortified by the judgment of the **Hon'ble High Court of Delhi** in the case of **Pr. CIT Vs. Era Infrastructure (India) Ltd. (2022) 114 CCH 219 (Delhi)** and the **Hon'ble High Court of Madhya Pradesh** in **Pr. CIT Vs. Keti Constructions (2024) 162 taxmann.com278 (MP)**, wherein the Hon'ble High Courts have held that the amendment made available on the statute vide the Finance Act, 2022 in Section 14A is effective from 01.04.2022 and cannot be permitted with retrospective effect. Accordingly, we are of the view that as the assessee company before us had during the subject year, i.e., A.Y. 2017-18, not received any exempt income, therefore, no disallowance could have been made by the A.O. u/s 14A of the Act.

38. Apropos the reliance placed by the AO on CBDT Circular No. 5/2014, dated 11.02.2014, we are of the view that the same cannot override the judicial interpretation of the statutory provision. We say so, for the reason that a Circular issued by the CBDT cannot enlarge the scope of Section 14A beyond the language employed by Parliament.

39. Accordingly, as in the present case, no exempt income was earned by the assessee company during the year under consideration, therefore, the very foundation for invoking Section 14A is absent. Accordingly, the disallowance of Rs. 2,01,09,442/- made by the AO under Section 14A r.w. Rule 8D is deleted. The **Grounds of appeal Nos. 9 & 10** are allowed in terms of our aforesaid observations.

40. We shall now deal with the grievance of the assessee company that the AO had erred in disallowing an amount of Rs. 12,90,000/- under Section 36(1)(iii) of the Act on account of interest allegedly attributable to interest-free advances of Rs. 1,07,50,000/- made to group concerns.

41. As is discernible from the record, the AO's case is that while the assessee company had incurred interest expenditure on borrowed funds, it had simultaneously advanced funds to its group entities without charging interest.

According to the AO, the assessee company had failed to establish that the advances were made out of its own funds and, accordingly, he presumed that they were made out of borrowed funds.

42. We have given thoughtful consideration to the contentions advanced by the Ld. Authorised Representatives of both parties on the aforesaid issue.

43. We find that the AO has made a disallowance of Rs. 12,90,000/- under Section 36(1)(iii) on the ground that the assessee had advanced Rs. 1,07,50,000/- to its group concerns without charging interest, while the assessee itself had interest-bearing borrowings. However, on a perusal of the financial statement of the assessee company, we find that during the relevant previous year, the assessee company issued 15,60,000 equity shares, resulting in an infusion of equity share capital of Rs. 1,56,00,000/-. Consequently, the equity share capital stood at Rs. 1,56,50,000/- as at 31.03.2017, which was substantially higher than the interest-free advances of Rs. 1,07,50,000/- given by the assessee company to its group entities. It is, thus, evident that the assessee company had substantial interest-free funds in the form of equity share capital. At this stage, we may herein observe that where the assessee possesses sufficient interest-free funds of its own to cover the interest-free advances, a presumption arises that such interest-free advances have been made out of the interest-free funds available with the assessee. Our aforesaid view is fortified by the judgment of the **Hon'ble High Court of Bombay** in the case of **CIT Vs. Reliance Utilities and Power Limited (2009) 313 ITR 340 (Bom)**. Also, the **Hon'ble Supreme Court** in **South Indian Bank Ltd. Vs. CIT (2021) 438 ITR 1 (SC)**, has also endorsed the principle that where mixed funds are available and the interest-free funds are sufficient, the Revenue cannot simply make a proportionate allocation of borrowed funds. However, since the equity share capital of Rs. 1,56,00,000/- was infused during the relevant previous year, the mere availability of the entire amount as at 31.03.2017 would not conclusively establish that the said funds were available with the assessee

company at the time the impugned advances were made. We are of the view that the relevant dates of receipt of the share capital and of the advances would, therefore, be material.

44. However, we find that the AO has not brought any material on record to establish that the impugned advances were made out of interest-bearing borrowed funds. We, thus, are of the view that in the absence of any such nexus being established, and having regard to the substantial equity share capital available with the assessee company by the end of the relevant previous year, the disallowance cannot be sustained merely on the basis that the assessee had interest-bearing borrowings. Accordingly, we find no justification for sustaining the disallowance of Rs. 12,90,000/- made by the AO under Section 36(1)(iii) of the Act, and delete the same. The **Ground of appeal No. 11** is allowed in terms of our aforesaid observations.

45. We shall now deal with the grievance of the assessee company that the authorities below had erred in law and facts of the case in making/sustaining the disallowance on account of prior-period interest expenditure under Section 37(1) of the Act of Rs. 9,74,90,000/-

46. Briefly stated, the assessee company during the subject year had claimed interest expenditure of Rs. 9,74,90,000/- on Inter Corporate Deposits (ICDs) given to its holding company, viz. M/s Mytrah Energy (India) Private Limited (MEPL), though pertaining to the preceding year, but was claimed during the subject year as the assessee company and MEPL were in discussions regarding the interest issue, which was concluded only during the year under consideration. It was the claim of the assessee company that, although the interest amount was computed with reference to the preceding years, it was an expenditure allowable during the year under consideration for the subject year, as the consideration for the claim of interest was agreed to and settled between the parties only during the current financial year; thus, the expenditure accrued and arose only during the

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subject year. The assessee company claimed that as the liability for interest crystallised and also arose only during the current year, it was rightly claimed as a deduction in the year under consideration. Elaborating further on its contention, it was submitted that as the assessee company and its holding company, viz. MEIPL were in discussion regarding the amount of interest to be charged on the ICDs, and the same was concluded during the year under consideration; therefore, as the liability for the subject interest expenditure had crystallised only during the year under consideration, the same was rightly, as per the settled position of law, claimed as a deduction while computing the income. The Ld. AR has further submitted that the genuineness of the expenditure was not in doubt, and the addition was made solely because the subject interest expenditure pertained to the preceding year. The Ld. AR, to buttress his contention that the subject interest expenditure had crystallised only during the year under consideration, has drawn support from the fact that MEIPL (Parent company) had offered the corresponding interest income to tax in the subject year, i.e., AY 2017-18. Accordingly, it was the claim of the assessee company that as the dispute regarding the interest to be paid on the ICDs had been agreed and settled between the assessee company and MEIPL (Parent company) only during the year under consideration, thus, the interest expenditure having crystalized during the subject year had rightly been claimed as deduction.

47. As is discernible from the record, the AO has disallowed the subject expenditure primarily on the ground that it related to an earlier period and that the assessee company was following the mercantile system of accounting. According to the AO, an expenditure relating to an earlier period could be allowed in the year under consideration only if the corresponding liability had crystalized during the year.

48. We find that the fundamental principle relied upon by the AO is correct to the extent that, under the mercantile system of accounting, an expenditure is

allowable in the year in which the corresponding liability accrues or crystallizes. However, the assessee company has assailed the subject disallowance on the ground that both the AO/CIT(A) had erred in making the addition/disallowance of Rs. 9,74,90,000/- as prior period expenditure under Section 37(1) of the Act without considering the fact that the said amount of interest though computed with reference to the period relating to earlier years is in fact an expenditure allowable in the current year since the claim for interest was agreed to and settled between the parties only during the current year and the expenditure is crystalized, accrued and arose only during the current year. Elaborating further on his contention, the Ld. AR submitted that the authorities below ought to have also noted that the expenditure under consideration had not been claimed or allowed as a deduction in any of the earlier years and further, since the genuineness of the expenditure is undisputed, the same is allowable in any of the years, particularly in the subject year, since the interest expenditure accrued and arose during the year under consideration.

49. We have given thoughtful consideration and are of the view that merely describing an expenditure in the books as "prior-period expenditure" does not, by itself, conclude the issue against the assessee. Rather, the crucial question is the year in which the liability actually crystalized. Thus, an expenditure may relate to an earlier period but, if the liability in respect thereof crystalized only during the year under consideration, deduction may be allowable in the year in which such liability crystalized.

50. We find that in the present case, the precise details concerning the nature of the prior-period interest expenditure of Rs. 9,74,90,000/-, the date on which the liability was determined, the date on which the relevant demand/invoice was raised and the circumstances in which the liability crystalized are not sufficiently clear from the material presently available before us. We, therefore, deem it appropriate to restore this issue to the file of the AO for the limited purpose of

verifying the actual date of crystallization of the liability. The assessee company shall, in the course of the set aside proceedings, furnish before the AO the complete particulars and supporting documentary evidence demonstrating the date on which the liability in respect of the expenditure of Rs. 9,74,90,000/- crystalized. If, upon verification, the AO finds that the liability had crystallised during the year under consideration, the expenditure shall be allowed in accordance with law. If, on the other hand, the liability had already accrued and crystalized in an earlier year, the AO shall deal with the claim in accordance with law. Needless to say, the AO shall, in the course of the set aside proceedings, afford an adequate opportunity of being heard to the assessee company, which shall remain at liberty to substantiate its aforesaid claim based on fresh documentary evidence, if any. The **Grounds of appeal Nos. 12 & 13** are allowed for statistical purposes in terms of our aforesaid observations.

51. In the result, the appeal of the assessee company is partly allowed in terms of our aforesaid observations.

Order pronounced in the open court on 13th October, 2026.

Sd/-	Sd/-
MADHUSUDAN SAWDIA	**RAVISH SOOD**
ACCOUNTANT MEMBER	**JUDICIAL MEMBER**

Hyderabad
Dated: 13th October, 2026.
OKK/SPS

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2	**DCIT, CIRCLE-5(1), IT TOWERS, MASAB TANK, HYDERABAD-500028, TELANGANA**
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