BHUTA SHAH & CO LLP

CHARTERED ACCOUNTANTS

FEBRUARY 2026

Monthly E-Newsletter

BSC BEACON

TAX & REGULATORY INSIGHTS

WHAT'S INSIDE

I. DIRECT TAXATION:
A. CORPORATE TAX

1. *HC quashes reassessment notice for AY 2015–16 as time-barred; Search in FY 2024–25 falls beyond ten-year limitation*

Mr. Jayantibhai Karamshibhai Maniya ('the Assessee'), engaged in the business of diamond job work, filed his ROI for AY 2015–16 on 31.03.2016 declaring total income of INR 19,85,220. A search under Section 132 of the Act was conducted on 09.05.2024 in the case of a third party, during which certain documents allegedly pertaining to the Assessee were found. Pursuant thereto, the Assessing Officer issued a notice dated 31.03.2025 under Section 148 of the Act seeking to reopen the assessment for AY 2015–16.

In response, the Assessee filed ROI declaring the same income and raised objections contending that the notice was barred by limitation under Section 149 read with Sections 153A/153C of the Act. The objections were rejected and reassessment proceedings were continued, which led the Assessee to file a writ petition before the Hon'ble Gujarat HC.

Before the Hon'ble Gujarat HC, the Assessee contended that since the search was conducted during FY 2024–25, the relevant assessment year would be AY 2025–26 and in terms of Explanation 1 to Section 153A, the extended ten-year period was required to be computed from the end of AY 2025–26. Reckoned accordingly, the tenth year would be AY 2016–17 and therefore AY 2015–16 fell beyond the permissible statutory block.

The tax authorities argued that the discovery of incriminating material during search justified issuance of notice and that limitation ought to be computed in a manner so as to include AY 2015–16 within the ten-year period.

The Hon'ble Gujarat HC, after examining the statutory framework, observed that the Act prescribes distinct methods for computation of the six-year and ten-year blocks. While the six years are to be counted immediately preceding the search assessment year, the extended ten-year period under Explanation 1 to Section 153A is to be computed from the end of the assessment year relevant to the previous year in which search is conducted. Reliance was placed on the decisions of the Hon'ble Delhi HC in Principal Commissioner of Income-tax v. Ojjus Medicare (P.) Ltd.[1] and the Hon'ble Madras HC in A.R. Safiullah[2] reiterating that limitation provisions must be strictly construed.

Applying the above, the Hon'ble Gujarat HC held that since the tenth year from AY 2025–26 would be AY 2016-17, issuance of notice for AY 2015–16 was beyond the statutory outer limit. The contention of the tax authorities that limitation could be extended on account of discovery of material was rejected.

Accordingly, the impugned notice was quashed as being barred by limitation.

Jayantibhai Karamshibhai Maniya [TS-104-HC-2026(GUJ)]

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2. *Assessing Officer does not have authority to deny interest under Section 244A of the Act.*

HCL Infotech Private Limited ('the Assessee') filed its ROI for AY 2014-15 declaring a loss and claiming refund of TDS of approx. INR 15.38 Crores. In the interim, a scheme of arrangement was approved by the Hon'ble Delhi HC wherein, inter alia, 'system integration' undertaking merged with the business of the Assessee. (Appointed date - 01.01.2013, effective date - 01.11.2013)

Consequent to the merger, the Assessee filed a revised ROI in March 2016 declaring a loss and claiming a revised refund of TDS of approx. INR 25.63 Crores. The Assessee had also executed an indemnity bond stating that the income and corresponding TDS deducted is encompassed in the revised ITR. However, due to some technical glitch in the Income tax portal, the acknowledgement of the revised ITR did not reflect the claim of refund of TDS. The Assessee filed a complaint before the CPC stating that while the XML file showed the claim of refund of TDS, the same was not reflecting in the ITR.

The Assessee also filed a letter with its AO informing him about the said technical glitch along with the corresponding documents. In response, the AO issued an assessment order under Section 143(3) of the Act taking into account the merger and the revised ITR and made certain adjustments to the income/loss claimed by the Assessee. However, no amount was refunded in relation to the TDS claim made by the Assessee.

Aggrieved, the Assessee filed a rectification application under Section 154 of the Act in January 2018 seeking refund of the TDS. In response, the AO passed an order in April 2018, granting the entire TDS deducted, however, he did not grant interest under Section 244A of the Act by merely observing that the delay in claiming TDS was attributable to the Assessee itself.

[1] *Principal Commissioner of Income-tax (Central-1) vs. Ojjus Medicare (P) Ltd., [TS-5183-HC-2024(Delhi)-O]*
[2] *Safiullah A.R vs. the Asst. Commissioner of Income Tax [TS-444-HC-2021(MAD)]*

Aggrieved again, the Assessee filed an appeal before the CIT(A) against the rectification order passed, who allowed the appeal stating that there was no delay on the part of the Assessee and directed the AO to release the interest under Section 244A of the Act.

Aggrieved, the tax authorities filed an appeal before the Hon'ble Delhi ITAT, which affirmed the order passed by the CIT(A). Aggrieved again, the tax authorities filed an appeal with the Hon'ble Delhi HC. The tax authorities claimed that the Assessee filed its original ITR in November 2014, thereafter filed its revised ITR in March 2016 and then filed for rectification belatedly in January 2018, which the AO disposed off expeditiously in April 2018. Hence, the delay was majorly attributable to the Assessee. In response, the Assessee claimed that due to complex nature of accounting involved to give effect to the order of scheme of arrangement, the Assessee took time to re-cast its books of account and thereafter filed the revised ITR.

The Assessee argued that the delay was attributable to the tax department and its software, if not the AO. The Assessee further claimed that as per Section 244A(2) of the Act, the right to attribute delay in proceedings upon the Assessee lies with the PCCIT or CCIT or PCIT or CIT and not the AO himself.

The Hon'ble Delhi HC held that in case some period or a part of the period is to be excluded from the period for the purpose of calculation of interest, this issue has to be decided by the authorities prescribed under Section 244A(2) of the Act. The AO himself cannot take onto himself power and deprive the Assessee from the interest payable under Section 244A of the Act. The Hon'ble HC further stated that the AO had given shoddy reasons for denying interest and the same ought to be allowed.

The Hon'ble HC affirmed the views of the CIT(A) and Hon'ble Delhi ITAT and disposed off the Appeal filed by the tax authorities citing lack of substantial question of law.

HCL Infotech Pvt Ltd [TS-192-HC-2026(DEL)]

3. *HC directs service of notices through other modes under Section 282 of the Act in case of no response from Assessee*

Due to the covid pandemic situation, Arumugam Ramasamy ('the Assessee'), a milk vendor, was unable to file his ROIs. Hence, proceedings were initiated against the Assessee. However, all the notices and communications were uploaded on the income tax portal, due to which the Assessee was unaware about the said proceedings and thus, he was not in position to file any reply. Further, the original copy of the said show cause notice was not furnished to the Assessee and consequently the tax authorities passed an ex parte assessment order under Section 147 read with Section 144 and 144B of the Act.

Aggrieved, the Assessee filed a writ petition before the Hon'ble Madras HC seeking to quash the said order and requested opportunity to file reply to the show cause notice by paying a sum of INR 5,00,000 to the tax authorities.

The tax authorities argued that they had uploaded the notices on the IT online portal, but the Assessee failed to avail the said opportunity. Further, they fairly admitted that no opportunity of personal hearing was provided prior to the passing of impugned order and therefore requested the Hon'ble Madras HC to remit the matter back to them, subject to terms.

The Hon'ble Madras HC remarked that the impugned assessment order was passed without affording any opportunity of personal hearing to the Assessee. It pointed out that although sending notice by uploading it on portal was sufficient service, the officer who was sending the repeated reminders should have applied his/her mind exploring the possibility of sending notices by way of other modes prescribed in Section 282 of the Act when there was no response from the Assessee. Such case was not an effective service and only amounted to fulfilling the empty formalities. It further exclaimed that merely passing an ex parte order by fulfilling the empty formalities will not serve any useful purpose and the same will only multiply litigations wasting the time of the officer concerned, appellate authority and the court.

The Hon'ble Madras HC also opined that when there is no response from the taxpayer to the notice, the officer should strictly explore the possibilities of sending notices through some other mode as prescribed under Section 282 of the Act preferably by way of Registered Post Acknowledgement Due, ultimately achieving the object of the Act.

Effectively, the Hon'ble Madras HC set aside the impugned order highlighting that there was a lack of opportunities being provided to serve the notices/orders etc., to the Assessee and considering Assessee's offer to pay a sum of INR 5 Lakhs to the tax authorities.

Arumugam Ramasamy [TS-127-HC-2026(MAD)]

4. *Failure to comply with VsV 2020 automatically revives revision proceedings and Assessee would be eligible to avail the benefit of VsV 2024*

Vidya Sagar Sharma (the Assessee') was assessed under Sections 144/147 of the Act for AY 2011-12 and a penalty was also imposed under Section 271(1)(c) of the Act for concealment of income. The Assessee challenged both orders by filing revision petitions under Section 264 of the Act on 16.03.2020. During their pendency, the Assessee opted for the Direct Tax Vivad Se Vishwas Act, 2020 ('DTVSV Act') scheme by filing Forms 1 and 2 on 23.02.2021. Form-3 was issued on 04.03.2021 determining the amount payable at INR11,68,241 (if paid after the initial due date). The revision petitions were formally disposed of on 17.03.2021. However, the Assessee failed to make payment within the prescribed and extended timelines and did not file Form-4, rendering the declaration void.

When the DTVSV Scheme, 2024 was introduced (applicable to cases pending as on 22.07.2024), the Assessee again applied, declaring liability of INR 11,68,241. The said application was rejected on 10.01.2025 on the ground that no revision petitions were pending as on the cut-off date since they had been disposed of in 2021.

Aggrieved by this, the Assessee appealed before the Hon'ble Jammu & Kashmir HC and relied on Section 4(6) of the DTVSV Act, arguing that upon failure to comply with payment conditions, the declaration is deemed never to have been made and "all proceedings and claims" withdrawn stand automatically revived by operation of law. Hence, his revision petitions stood revived and were deemed pending on the relevant date. The Assessee also contended that omission to specifically mention Section 271(1)(c) of the Act in Form-1 was a bona fide error, as the relevant schedule referred to both tax and penalty.

The tax authorities argued that once the revisions were withdrawn and disposed off, no proceedings were pending on 22.07.2024 and Section 4(6) of the DTVSV Act did not allow revival at the Assessee's instance.

The Hon'ble Jammu & Kashmir HC held that under Section 4(2) of the DTVSV Act, withdrawal of appeals operates automatically upon issuance of Form-3. Crucially, under Section 4(6) of the DTVSV Act, if the declarant violates conditions such as non-payment, the declaration is presumed never to have been made and "all the proceedings and claims" withdrawn stand revived by operation of law. The provision does not distinguish between proceedings initiated by the Assessee and those by the tax authorities. By applying harmonious construction, the Hon'ble Jammu & Kashmir HC held that revival restores parties to their original legal position, including the Assessee's right to pursue revision.

Accordingly, the Hon'ble Jammu & Kashmir HC set aside the rejection order dated 10.01.2025 and concluded that the revision petitions stood automatically revived upon non-compliance with the DTVSV, 2020 Scheme and were therefore pending on the cut-off date under the DTVSV, 2024 Scheme. The Hon'ble Jammu & Kashmir HC further directed the Assessee to approach the authorities within 30 days to complete formalities for availing benefits under the 2024 Scheme in respect of both tax and penalty, failing which the tax authorities would be free to proceed in accordance with law.

Vidya Sagar Sharma [TS-183-HC-2026(J & K)]

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5. *Income of predecessor company cannot be assessed in hands of successor for period prior to amalgamation*

Kalpataru Projects International Ltd ("the Assessee") is a public limited company engaged in engineering, procurement and construction services across various infrastructure sectors including power transmission building and factories, water, railways and heavy civil infrastructure.

A search and seizure action under Section 132 of the Act was carried out in the Kalpataru Group of Companies on 04.04.2023, wherein the premises of Assessee were also covered. Pursuant thereto, notice under Section 148 was issued on 31.03.2024, in response to which the Assessee filed its ROI for the AY 2018-19. After detailed scrutiny, the Ld. AO disallowed 100% of expenses amounting to INR 2,47,49,600/- under Section 37(1) of the Act in respect of alleged non-genuine purchases of erstwhile M/s JMC Projects (India) Ltd. ("JMC"), which merged with the Assessee w.e.f. 01.04.2022.

The core issue was whether additions relating to JMC, which amalgamated with the Assessee w.e.f. 01.04.2022, could be assessed in the hands of the Assessee for years prior to amalgamation.

Aggrieved by the order, the Assessee filed an appeal before the CIT(A) pursuant to which the disallowance

was restricted to 12.5%, however, the validity of reassessment was upheld. Aggrieved by the same, the Assessee as well as the tax authorities filed appeal before the Hon'ble Mumbai ITAT.

Before the Hon'ble Mumbai ITAT, the Assessee contended that under Section 170 of the Act, income of a predecessor prior to succession cannot be clubbed and assessed as income of the successor in its own right. It was further submitted that JMC had independently filed its ROI for the relevant year and continued to exist as a separate taxable entity during AY 2018–19.The tax authorities placed reliance on the judgement of the Hon'ble SC in the case of PCIT v. Maruti Suzuki India Ltd.[3] to justify the validity of the assessment proceedings, contending that the addition of the income of the predecessor in the hands of the successor is legally sustainable.

The Hon'ble Mumbai ITAT held that while proceedings must be initiated in the name of the surviving entity post-amalgamation, the income of the predecessor for a period prior to amalgamation cannot be assessed in the hands of the successor through a composite reassessment order. Since the amalgamation was effective from 01.04.2022, JMC remained a separate taxable entity for AY 2018–19.

Accordingly, the reassessment in the hands of successor company to that extent was held unsustainable and the appeals of the Assessee's were allowed on legal grounds and the tax authorities' cross-appeals were dismissed.

Kalpataru Projects International Ltd [TS-80-ITAT-2026(Mum)]

6. *ITAT allows withdrawal of Suo moto disallowance by the Assessee by holding that no addition under Section 14A of the Act is called for in the absence of exempt income during the year*

The Shri Hari Trust ('the Assessee') e-filed its ROI for AY 2016-17 by declaring total income of INR 23,11,834. The Assessee had Suo moto disallowed expenses of INR18,28,62,017 directly relating to the income which was not part of the total income under Section 14A of the Act read with rule 8D(ii) of the Rules.

The case was selected for scrutiny under CASS and notice was duly served to the Assessee. The AO recalculated and found the amount of INR 43,23,20,191 was liable to be disallowed related to interest expenditure under Section 14A of the Act. After giving due credit of Suo motu disallowance by the Assessee the balance amount of INR 24,94,58,174 was added back to the total income as per the said provisions.

However, the Assessee made submission that they had made the Suo motu disallowance due to the wrong guidance of tax consultant and that they had not earned any exempted income during the said assessment year and accordingly, no addition relating to Section 14A of the Act in absence of exempted income was required. Consequently, the Assessee revised the ROI and withdrew the said disallowance which was not allowed by the Assessing officer.

Aggrieved by the order of the AO, the Assessee filed an appeal before the CIT(A). The CIT(A) upheld the order by rejecting the submission of the Assessee.

The Assessee filed an appeal with the Hon'ble Mumbai ITAT contending they had erroneously made Suo motu disallowance of expenditure and were entitled to rectify such error and withdraw the disallowance during the assessment proceedings. They further argued that specific prayer was made before both the AO as well as the CIT(A) for withdrawal of the Suo motu disallowance. However, the AO rejected the said request and made additional disallowance.

The Hon'ble Mumbai ITAT held that since the Assessee did not earn any exempt income during the relevant assessment year, the provisions of Section 14A read with Rule 8D(2) were not applicable in the present case. It relied on the ruling in HDFC Bank[4] wherein it was held that disallowance under Section 14A cannot be sustained when Assessee earned no exempt income during the year. Further, it also placed reliance in the case of Aditya Birla Nuvo Ltd[5] and opined that Suo motu disallowance of expenditure relatable to exempt income can be withdrawn during the assessment proceedings.

The Shri Hari Trust [TS-165-ITAT-2026(Mum)]

7. *Protective addition under Section 69 of the Act not sustainable wherein substantive addition deleted on merits*

Dhiraj Solanki (the 'Assessee') and his brother had jointly purchased a shop in the 'Platinum Mall' developed by Rubberwala Group ('the Group'). Thereafter, a search and seizure operation under Section 132 of the Act was conducted on the Group.

[3] PCIT vs. Maruti Suzuki India Ltd [TS-429-SC-2019]

[4] HDFC Bank Ltd. v/s ACIT, ITA no. 5480 & 5481/Mum/2019

[5] Aditya Birla Nuvo Ltd. v. Addl. CIT, [TS-5001-ITAT-2020(Mumbai)-O]

During the search, a pen drive was seized from the Group's key persons which contained an excel sheet detailing the agreement value and the actual sale price of shops in the mall project. While recording statements, an employee explained that the difference between the agreement value and actual sale consideration was 'on money' which were received in cash from the buyers. Based on the material, the AO initiated proceedings under Section 153C of the Act on the Assessee and proposed addition of alleged on-money paid by the Assessee to the Group.

The Assessee denied having paid any amount over and above the agreement value. However, the Assessing Officer concluded that the Assessee had paid on-money in cash and made protective addition in hands of the Assessee since substantive addition was already made in the hands of his brother.

Aggrieved, the Assessee filed an appeal before the CIT(A) wherein the addition made by the AO was upheld. Aggrieved again, the Assessee filed an appeal before the Hon'ble Mumbai Tribunal. The Assessee argued that since the substantive addition made in the case of the Assessee's brother had been deleted by the same CIT(A) that of the Assessee on merits, the protective addition in the Assessee's case could not survive and was to be deleted.

In response, the tax authorities contended that credible evidence found during the search established payment of on-money by buyers, including the Assessee. The tax authorities submitted that the seized material was corroborated by statements of key persons of the Group admitting receipt of cash on-money and that merely because the substantive addition has been deleted, automatic deletion of protective addition is not warranted, rather the protective addition would become substantive addition.

The Hon'ble Mumbai ITAT allowed the appeal holding that since the substantive addition was deleted by the very same CIT(A) on merits after taking note of all relevant facts, the protective addition could not survive and was accordingly ought to be deleted.

Dhiraj Solanki [TS-191-ITAT-2026(Mum)]

8. *Payment for Giving Up "Savlon" Trademark Classified as Business Income instead of Capital receipts*

Hindustan Unilever Ltd. ('the Assessee') had entered into an exclusive license agreement with NR Jet Enterprises Ltd. (NR Jet) to use the trademark "Savlon" for soaps and other personal wash products. HUL actively used the trademark in its business operations. In October 2003, both parties mutually agreed to terminate the license agreement prematurely, and NR Jet agreed to pay HUL a compensation of INR 12.5 Crore for relinquishing its rights to the trademark. The primary issue before the tax authorities was whether the compensation received by HUL from NR Jet constituted taxable business income or a capital receipt under the Act.

The AO treated the compensation as taxable business income, whereas the Assessee contended that it should not be taxed as revenue. The CIT(A) partly allowed Assessee's appeal.

Upon further appeal, the Hon'ble Mumbai ITAT examined the terms of the assignment and termination agreements and observed that the Assessee was not restricted from continuing its business in soaps and personal care products under other brands; the only restriction was the use of the "Savlon" trademark. The Hon'ble Mumbai ITAT relied on the principle that the definition of "income" under Section 2(24) of the Act is inclusive, and the taxability of a receipt depends on its nature and the scope of the relevant taxing provision.

The Hon'ble Mumbai ITAT emphasized that the receipt arose from a business right rather than the sale of a capital asset and that Assessee's ability to continue its business was not impeded. Accordingly, under the inclusive definition of "income" in Section 2(24) of the Act, the payment is taxable in the hands of Assessee as part of its business income.

Accordingly, the Hon'ble Mumbai ITAT concluded that the compensation received by the Assessee for relinquishing its rights to the "Savlon" trademark was revenue in nature and therefore assessable as business income.

Hindustan Unilever Ltd [TS-123-ITAT-2026(Mum)]

9. *ITAT restricts addition under Section 69C of the Act to 5% on the basis that if sales are undisputed, corresponding purchases cannot be held to be entirely bogus.*

The Silk Factory ('the Assessee') filed its return for AY 2019-20. The case was reopened based on information received under risk management strategy

of CBDT on the insight portal, indicating that the Assessee had made alleged bogus purchases from certain parties who were involved in issuing fraudulent GST invoices. The AO added the entire purchase amount which he deemed bogus under Section 69C r.w. Section 115BBE of the Act.

Aggrieved, the Assessee filed an appeal before the CIT(A), who modified the AO's order by restricting the addition to 5% of the alleged bogus purchases. Aggrieved, the tax authorities and the Assessee filed an appeal and cross objection respectively before the Hon'ble Delhi ITAT. The tax authorities argued that the AO conducted detailed investigation and relied on multiple intelligence reports from the Investigation team, GST records and third-party confirmations and concluded that the purchases were made from non-existent and shell entities. The tax authorities further claimed that the entities from whom such alleged bogus purchases were made, were not carrying out any fabric business.

The Assessee argued that it had provided comprehensive documentation, including invoices, consignment notes, ledger accounts, bank statements and stock register. The Assessee further claimed that the AO did not dispute the sales made out of the corresponding alleged bogus purchases.

The Hon'ble Delhi ITAT held that the Assessee had established that it had undertook sales from the alleged bogus purchases and the said sales had been declared in its profit and loss account. If the purchases were entirely held bogus, it would be impossible for the Assessee to complete the corresponding sale. Therefore, when corresponding sales remained undisputed, purchases cannot be held to be entirely bogus.

The Hon'ble Tribunal also relied on the Assessee's own case of AY 2022-23 wherein similar issue was decided in favour of the Assessee and upheld the CIT(A)'s order of restricting the addition to 5% of the alleged bogus purchase under Section 69C of the Act. Thereby, dismissing the appeal of the tax authorities.

The Silk Factory [TS-208-ITAT-2026(DEL)]

10. Assessment cannot be reopened or rectified after final settlement under DTVSV scheme.

ICRA Ltd ('the Assessee') opted for settlement under Direct Tax Vivad se Vishwas scheme, 2020 (DTVSV, 2020) and paid the prescribed amount. The Form-5 was issued signifying full and final settlement of the dispute. Subsequently, the AO invoked Section 154 of the Act to rectify the assessment on the ground of an apparent mistake on record. The Assessee argued that once Form-5 was issued, the matter attained finality, and no further proceedings could be initiated. However, the AO proceeded with rectification, and the CIT(A) upheld the AO's action.

On further appeal, the Hon'ble Delhi ITAT examined the scope of Section 154 of the Act and the legislative intent of DTVSV. Relying on the Hon'ble Delhi HC ruling in Satish Kumar Dhingra[6], the Hon'ble Delhi ITAT observed that once Form-5 is issued under DTVSV, the assessment for that year cannot be reopened or revised, whether directly or indirectly, including through rectification proceedings.

The Hon'ble Delhi ITAT held that issuance of Form-5 under DTVSV brings finality to the assessment and the AO lacks jurisdiction to reopen, revise, or rectify the same under Section 154 of the Act. It emphasized that rectification powers are limited to correcting apparent mistakes and cannot be used to unsettle matters concluded under a statutory settlement scheme. Accordingly, the rectification order was quashed, and the Assessee's appeal was allowed.

ICRA Ltd [TS-106-ITAT-2026(DEL)]

11. Statutory audit requirement under Section 44AB of the Act is mandatory despite exempt income where turnover exceeds the threshold limit

Jalpaiguri Zilla Regulated Market Committee ('the Assessee') is a registered APMC eligible for tax exemption under Section 10(26AAB) of the Act. The Assessee did not file its ROI for AY 2017-18. Based on information of huge cash deposit by the Assessee in its Bank account, the tax authorities issued several notices to the Assessee to file its ROI. However, the Assessee did not respond to any of the notices. The tax authorities passed an ex-parte judgement by treating the total credit in the Bank account as total turnover of the Assessee and estimated the profit @8% thereon as Income for AY 2017-18.

Since the total turnover determined was above the threshold limit of Tax Audit applicability under Section 44AB of the Act and the Assessee failed to get its accounts audited under that section, the tax authorities

[6] *Satish Kumar Dhingra – [TS-623-HC-2024(DEL)]*

initiated penalty proceedings under Section 271B of the Act.

Aggrieved, the Assessee filed an appeal before the CIT(A) who dismissed the said appeal. Aggrieved again, the Assessee filed an appeal before the Hon'ble Kolkata Tribunal.

The Assessee argued that since its entire income was eligible for tax exemption under Section 10(26AAB) of the Act, it was not required to undergo tax audit or file any ROI. The Assessee further claimed that statutory audit under the relevant Act was already carried out and report was duly furnished before the due date of filing Audit report under Section 44AB of the Act. However, the Hon'ble Kolkata ITAT held that even though statutory Audit was carried out and the report was furnished before the due date of filing Audit report under Section 44AB of the Act, the Assessee failed to furnish the report of Audit as prescribed i.e. Form 3CA and 3CD, thereby violating Section 44AB of the Act.

The Hon'ble Kolkata ITAT held that the audit requirement and its related penalties operate independently of assessment findings. Audit under Section 44AB of the Act is triggered solely because turnover exceeds the threshold and failure to do so shall attract penalties. Hence, despite the income being exempt, the required audit report under Section 44AB of the Act on Form-3CD was required to be filed.

However, the Assessee submitted that it had a reasonable cause for not getting the audit carried out. Considering the same, the Hon'ble Kolkata ITAT remanded back the case to the CIT(A) to present the case for reasonable cause and decide thereon.

Jalpaiguri Zilla Regulated Market Committee [TS-184-ITAT-2026(Kol)]

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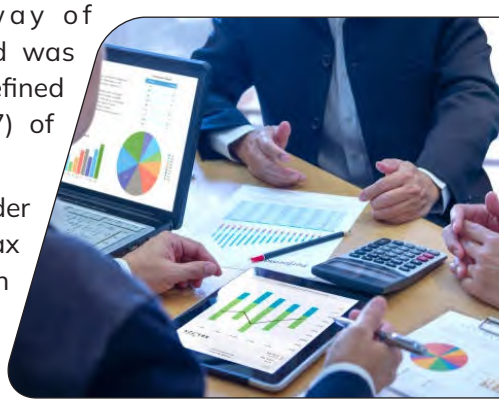
12. ITAT holds that Immovable property received under family settlements by HUF members is neither transfer nor taxable under Section 56(2)(vii)(b) of the Act.

Ratna Aggarwal ('the Assessee') an individual filed her ROI declaring income of INR 3,40,540. Subsequently her case was subject to reassessment on the ground that she had received an immovable property by way of gifts deed amounting to INR 33,43,440. The transaction was carried out between the Assessee and Shri Rajiv Agarwal (brother-in-law) who was the son of Shri A.D. Agarwal (real brother of father-in-law of the Assessee). Shri A.D. Agarwal, in his dying wish, desired to gift some shares of his property to the family of his brother and the same was pursued by his son Ravi Agarwal by registering the property in the name of Assessee by way of family settlement.

As she did not fall in the definition of specified relatives under Section 56(2) of the Act, the Assessee filed the ROI declaring INR 33,43,440 as IFOS. Later, during reassessment proceeding, the Assessee revised computation claiming that the said property was received by her in family settlement and therefore the value of the property is not taxable. However, the AO did not agree and made addition of the same.

Being aggrieved by the order of the AO, the Assessee filed an Appeal before the CIT(A). The Assessee claimed that the value of the property was inadvertently shown as IFOS in computation. Submission was also made that late Shri A.D. Agarwal had purchased the property with contribution coming up from the real brother of Shri A.D. Aggarwal and father-in-law of Assessee. Thus, in a way pleading it to be a joint Hindu family property.

The CIT(A) considered the family settlement to be a genuine transaction and observed that AO has not made any adverse remark about the same thereby the allegation by way of registered gift deed was not 'transfer' as defined under Section 2(47) of the Act.



Aggrieved by the order of the CIT(A), the tax authorities filed an appeal before the Hon'ble Delhi ITAT contending that the story of family settlement was a concocted story and subsequently created to add validity to the registered gift deed since the relation does not fall in the definition of specified relatives under Section 56(2) of the Act.

The Hon'ble Delhi ITAT held that gift received by the Assessee under the family settlement does not fall under the definition of 'transfer' under Section 2(47) of the Act, and the said transaction was not liable to tax under Section 56(2)(vii)(b) of the Act as deemed income. It concurred with CIT(A)'s view and emphasized that the provisions of Section 56(2) of the Act also do not apply as the gift deed was merely execution of a formal document amongst the family members constituting HUF due to the reason of manner of acquisition of property and respective antecedent rights and interest in the subject property. It observed that if the property was received without consideration from member of HUF, same shall not be considered deemed income.

Ratna Aggarwal [TS-131-ITAT-2026(DEL)]

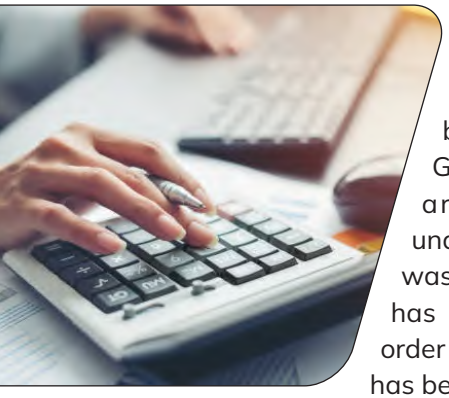
B. INTERNATIONAL TAXATION

1. ***Non-disallowance in Assessment Proceedings does not preclude initiation of proceedings under Section 201 of the Act; FTS not taxable in India on account of non-satisfaction of make available clause of India- Singapore DTAA***

Solvay Specialities India Pvt Ltd ("the Assessee") made payment of service charges to its Singapore group entity, Solvay Speciality Chemicals Asia Pacific PTE Ltd ("Sovay Singapore"), for providing support services. No TDS was deducted on payment of these services. The support services were in the areas of general management, human resource, legal, finance, compliance, purchasing, IT systems, business processes, business relations, and transversal functions.

During the assessment proceedings, the AO examined the foreign remittances made by the Assessee and did not make any disallowance under Section 40(a)(i) of the Act with respect to payment made to Solvay Singapore. The AO merely made addition to the income on account of upward transfer pricing adjustment as recommended by TPO. Aggrieved by the order of the AO, the Assessee filed an application before the Hon'ble DRP, wherein the upward TP adjustment was reduced.

Subsequently, the AO (TDS) initiated proceedings under Sections 201 and 201(1A) of the Act and held that the payments made to Solvay Singapore constituted Fees for Technical Services (FTS), thereby treating the Assessee as an "Assessee in default" for non-deduction of tax.



Aggrieved by the said order, the Assessee filed a writ application before the Hon'ble Gujarat HC. The Assessee argued that the order under Section 201 of the Act was not sustainable as AO has passed an assessment order wherein no disallowance has been made with respect to payment made to Solvay Singapore. Also, no variation to same was proposed by the Hon'ble DRP. The Hon'ble Gujarat HC held that proceedings under Section 201 of the Act are independent and can be initiated even where no disallowance is made during scrutiny assessment as there is no specific bar provided under Section 201 of the Act.

On merits the AO (TDS) contended that the nature of services could not be ascertained as the petitioner failed to furnish invoice-wise particulars. The petitioner had consistently explained that the services were continuous support services in areas such as management, human resource, legal, finance, compliance and IT, and that invoicing was consolidated due to the ongoing and continuous nature of services involving multiple simultaneous activities.

The Hon'ble Gujarat HC held that the AO (TDS) failed to examine whether any technical knowledge, skill or know-how was "made available" to enable the Assessee to perform such functions independently in future. The Hon'ble Gujarat HC further noted that in earlier assessment proceedings for a prior year, the AO had accepted that identical services did not satisfy the "make available" test and hence were not taxable.

Merely noting that the invoices contained common descriptions, without examining how the services satisfied the "make available" clause and without referring to earlier assessment proceeding was not sufficient to classify the payments as FTS.

Accordingly, the writ petition was allowed and order under Sections 201 and 201(1A) of the Act was quashed.

Solvay Specialities India Private Ltd [TS-153-HC-2026(GUJ)]

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2. ***Upfront fees paid to foreign lenders not taxable as FTS in absence of "make available" of technical knowledge; No disallowance under Section 40(a)(i) of the Act for non-deduction of TDS***

TVS Motor Company Ltd ("the Assessee") had paid upfront fees to foreign entities of UK and Singapore in connection with facilitating the availment of external commercial borrowings. The Assessee has not deducted any TDS on the said payments by adopting the view that the payments constitutes business profits of the payee not liable to tax in India (as payee has no PE in India).

The AO was of the view that the amounts had been remitted for technical services rendered by the two payees in facilitating the availment of External Commercial Borrowings (ECB) by the Assessee and hence TDS was required to be deducted on the said payments. The assessment was thus concluded disallowing the entire amount remitted, under Section 40(a)(i) of the Act.

Aggrieved by the same, the Assessee filed an appeal

before the CIT(A). The CIT(A) primarily negated the view of the Assessee that the services are non-technical in nature. The CIT(A) stated that the services provided by the foreign entities are technical in nature. However, the CIT(A) deleted the disallowance made by the AO stating that both the treaties of India-UK and India- Singapore have make available clause, and as the said services are not made available in India the payment for same are not taxable in India.

Aggrieved by the order of CIT(A), the tax authorities filed an appeal before the Hon'ble Chennai ITAT wherein the appeal was dismissed. Subsequently, the tax authorities filed an appeal before Hon'ble Madras HC. The Hon'ble Madras HC held that for a payment to qualify as FTS under the applicable DTAA, the "make available" condition must be satisfied, i.e., the recipient of services must be enabled to apply the technical knowledge or skill independently in future. In the present case, no such technical knowledge or skill was made available to the Assessee. The foreign parties merely provided assistance and did not transfer any technical expertise.

Accordingly, the Hon'ble Madras HC held that the upfront fees paid to foreign entities could not be characterized as FTS and were not chargeable to tax in India. Consequently, the Assessee was not liable to deduct tax at source under Section 195 of the Act and disallowance under Section 40(a)(i) of the Act was not sustainable.

TVS Motor Company Ltd [TS-148-HC-2026(MAD)]

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3. *Mere obtaining TRC not sufficient to claim DTAA benefit; Capital Gains taxable in India in absence of Commercial Substance in Singapore*

Hareon Solar Singapore Private Limited ("the Assessee") was incorporated in Singapore on 23.04.2015 and was a tax resident of Singapore for AY 2020-21. Its main activity was investment in companies engaged in power production and trading. In July 2015, it invested in 40,92,941 equity shares and 14,89,180 compulsorily convertible debentures (CCDs) of Renew Solar Energy (Karnataka) Pvt. Ltd., an Indian company. Later, these investments were sold to Renew Solar Power Pvt. Ltd., resulting in long-term capital gains of INR 17.67 crore. The Assessee claimed the gains as exempt under Article 13(4A) / (5) of the India-Singapore DTAA.

The case was selected for scrutiny. During the assessment proceedings, the AO asked for shareholding pattern, group structure, organization structure and director details. The AO noted that the Assessee's holding company was in Hong Kong and the ultimate holding company was in China. The AO observed that if the investment had been made directly through Hong Kong or China, capital gains would have been taxable in India.

The AO further observed that the Assessee had no operational expenses (i.e. electricity, internet, etc) and that control of the bank account was with authorized signatories based outside Singapore. None of the key persons were located in Singapore. The Assessee relied on the TRC issued by Singapore authority and the Article 24A (LOB clause) and submitted that it had incurred expenditure of more than SGD 2,00,000 in Singapore, satisfying the requisite condition. The AO rejected this and held that the company lacked commercial substance and was only interposed to claim treaty benefit.

The AO stated that the Assessee had no real business activity in Singapore and was only incorporated to claim the benefit of India-Singapore DTAA. He relied on decisions such as AB Mauritius, Indo Star Capital, McDowell, Tiger Global and others, and held the capital gains taxable in India. AO accordingly passed a draft assessment order.

Aggrieved, the Assessee filed objections before the Hon'ble DRP, which were rejected. The final assessment order was passed u/s 143(3) r.w.s. 144C(13) of the Act. The Assessee appealed before the Hon'ble Delhi ITAT and argued that it had incurred SGD 4,00,000 as expenditure and relied on the Hon'ble Mumbai ITAT decision in case Fullerton Financial Holdings[7]. It also submitted that it continued to hold other investments, showing it was not a shell company. Further, Assessee also stated that all the board meetings were held in Singapore and the directors were physically present in the same.

The tax authorities argued that under the joint venture agreement, solar modules were supplied by the Chinese parent company for which it has entered into Power Purchase Agreement with 'The Southern Power Distribution Company of Andhra Pradesh Limited' (APSPDCL) and the Singapore company was merely incorporated for routing investment.

The Hon'ble Delhi ITAT examined the financial statements of the Assessee. It found that the entire

[7] *Fullerton Financial Holdings [TS-1458-ITAT-2025(Mum)]*

share capital was held by the Hong Kong based parent company. Assets in form of property, plant and equipment were only USD 1,021. Major liabilities were payable to the parent company. There existed two main expenses, majorly, legal and professional fees (to be paid to its consultant TMF) and forex loss.

The Hon'ble Delhi ITAT held that the Assessee had no independent business activity and was dependent on its 100% parent company at Hongkong for funding. Also, the Hon'ble Delhi ITAT highlighted that no evidence with respect to physical presence of directors in board meeting in Singapore is submitted on record. Further, the Hon'ble Delhi ITAT stated that mere obtaining TRC is not sufficient to claim the DTAA benefit.

The Hon'ble Delhi ITAT concluded that the Assessee lacked commercial substance in Singapore and was set up mainly to obtain treaty benefit (India Singapore DTAA). Since capital gains would have been taxable in India if investment was made directly by Hong Kong or China entities, the treaty benefit was denied. Hence, the appeal of the Assessee was dismissed.

Hareon Solar Singapore Pvt. Ltd [TS-112-ITAT-2026(DEL)]

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4. ***Indian Branch Not a DAPE for Foreign Reinsurer, no tax on direct business***

General Reinsurance AG ("the Assessee"), a tax resident of Germany being engaged in the business of reinsurance globally, operated in India initially through its wholly owned subsidiary, Gen Re Support Services Mumbai Pvt. Ltd. (GSSMPL) providing only support services until July 2017. With effect from 01.08.2017, the Assessee established an Indian branch pursuant to approval from the IRDAI. The Assessee earned income from two streams, namely direct reinsurance business negotiated and concluded outside India, and business conducted through the Indian branch, the income of which was fully offered to tax in India.

The AO contended that the Assessee had a "business connection" in India under Section 9(1)(i) of the Act, the Indian branch constituted a DAPE under Article 5(5) of the India-Germany DTAA and the reinsurance premiums received from Indian cedants (i.e. Indian insurance companies) were deemed to accrue or arise in India.

On Appeal, the Hon'ble Mumbai ITAT held that the wholly owned subsidiary company GSSMPL was engaged only in support and administrative functions and had no authority to negotiate, conclude, or bind reinsurance contracts on behalf of the Assessee. It also reaffirmed its earlier decisions in the Assessee's own case for AY 2015-16 and AY 2017-18 and constituted that providing support services cannot be equated to carrying on of reinsurance business in India and no portion of income earned by the Assessee is taxable in India basis view of the AO that GSSMPL constituted a business connection or PE in India for its direct business.

The Hon'ble Mumbai ITAT observed that even after the branch in India was set up, all direct reinsurance contracts continued to be negotiated, executed, and serviced entirely outside India. THE Hon'ble Mumbai ITAT rejected the Revenue's contention that the branch constituted a business connection or a PE under Articles 5(1) or 5(5) of the India-Germany DTAA. It clarified that the branch is merely an extension of the head office and is not a separate legal person hence cannot be treated as its agent. Accordingly, no real and intimate business connection was established, and Section 9(1)(i) of the Act was not applicable. It further concluded that neither a Fixed Place PE nor a Dependent Agent PE existed in India in respect of the direct business income.

The Hon'ble Mumbai ITAT, therefore, concluded that the Assessee did not have a business connection under Section 9(1)(i) of the Act nor a Permanent Establishment under Article 5 of the India–Germany DTAA in respect of its direct reinsurance business, and consequently, the reinsurance premium earned from such direct business was not taxable in India.

General Reinsurance AG [TS-151-ITAT-2026(Mum)]

II. TRANSFER PRICING

1. ***HC holds that DRP cannot issue directions once final assessment order is passed; Follows precedent***

Fugro Survey India Pvt Ltd ('the Assessee') entered into international transactions with its AEs. The case was referred to the TPO for determination of the ALP. The TPO passed the order under Section 92(CA)(3) of the Act after making transfer pricing adjustments. On the basis of the order passed by the TPO, the AO passed the draft assessment order. As per the statutory time of 30 days, the Assessee filed its objections against the draft assessment order and intimated the same to the

Hon'ble DRP and Jurisdictional Assessing Officer ('JAO') via email correspondence. However, despite the objections filed by the Assessee, the AO passed the final assessment order incorporating the transfer pricing adjustments made in the TP order.

Aggrieved by the final assessment order, the Assessee field an appeal before the CIT(A).

The DRP held that the Assessee has not intimated the AO about the objections filed before the Hon'ble DRP and hence non-est. It further contented that the Assessee's claim of a technical glitch in the portal was unsupported by evidence.

The Assessee contended since the final assessment order was already passed, the Hon'ble DRP ought not to have entertained the objections and should not have given any directions or a finding on the alleged non-compliance that the Assessee had not intimated the AO about the objections being filed before the Hon'ble DRP. The Assessee relied on the decision of the jurisdictional HC in the case of Undercarriage and Tractor Parts Pvt. Ltd.[8], wherein it was held that the Hon'ble DRP ought to have declined to consider the objections without making any adverse remarks. On the basis of the directions given by the Hon'ble DRP, the AO passed a fresh assessment order which was challenged before the Hon'ble Bombay HC.

The Hon'ble Bombay HC, observed that the facts relating to Assessee's filing objections before the Hon'ble DRP and its intimation to the tax authorities are not in dispute. The Hon'ble Bombay HC held that even if it is considered that the assessment order was passed erroneously, the Hon'ble DRP could not have issued any directions and / or given any finding. The Hon'ble Bombay HC relying on the ruling in the case of Undercarriage and Tractor Parts Pvt. Ltd. held that the Hon'ble DRP could give directions only in pending assessment proceedings and once the assessment order was passed, rightly or wrongly, the assessment proceedings come to an end and the Hon'ble DRP ceases to have authority to issue directions or record findings under Section 144C(5) of the Act. Accordingly, held that the findings given in relation to whether the objections filed by the Assessee before the Hon'ble DRP were intimated to the AO, or otherwise, were wholly unwarranted in the present case. It further directed that findings of the Hon'ble DRP should not influence the CIT(A) at the time of deciding the appeal.

Fugro Survey India Pvt. Ltd. [TS-166-HC-2026(BOM)-TP]

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2. ***Bundling of transactions to be done when the ALP cannot be determined using transactional traditional method. For benchmarking bundled service transaction under CUP method, the comparables should also provide similar bundling services***

Marks and Spencer (India) Private Limited ('the Assessee') is engaged in the business of wholesale trading of branded apparel and accessories in India. The Assessee has entered into an agreement with its AE wherein the AE has licensed various rights relating to apparel manufacturing in India. Further the Assessee has also availed support services such as services in relation to strategy and business development, marketing, buying and merchandising, logistics, IT and supply chain, human resource, finance, legal etc. from its AE. In consideration to such rights and services, the Assessee has paid 6% royalty on trading sales to its AE. The Assessee reported the transaction as a single aggregate transaction in Form 3CEB and earned a margin of 11.47% on sales. It benchmarked the transaction following bundling approach as the transactions were closely linked by relying on the decision of the Hon'ble Delhi HC in case of Sony Ericsson Mobile Communications India Pvt. Ltd[9] using TNMM with Arm's length margin range of comparables at 2.60% to 2.65%. The TPO alleged that overall higher profit margins do not justify arm's length of international transaction and that royalty should be benchmarked separately. Accordingly, TPO rejected TNMM adopted by the Assessee and applied CUP method on an adhoc basis. The TPO also rejected the corroborative CUP analysis submitted by the Assessee without providing any cogent reason. The TPO arrived at a set of 3 comparable companies with an arm's length margin of 3.92%.

Aggrieved by the draft order, the Assessee filed its objections before the Hon'ble DRP. The Hon'ble DRP rejected the objections filed by the Assessee and upheld the order of the TPO.

Aggrieved by the DRP's order, the Assessee filed its appeal before the Hon'ble Delhi ITAT. The Hon'ble Delhi ITAT observed that the payment of 6% covered trademark rights, product know-how, marketing, logistics, IT, and supply chain support. The Hon'ble Delhi ITAT held that merely because services are interlinked and continuously provided, does not leave the only option of aggregating transactions to

[8] *Undercarriage and Tractor Parts Pvt. Ltd. [TS-554-HC-2023(BOM)-TP]*

[9] *Sony Ericsson Mobile Communications India Pvt. Ltd [TS-5203-HC-2015(Delhi)-O]*

benchmark the same. The bundling of the services as per the above Delhi HC can be opted where nature of transaction as a whole is so interrelated that it will be more reliable means of determining the arm's length consideration for the controlled transactions. Considering the current scenario, the Hon'ble Delhi ITAT held that the current transaction being not very complex can be benchmarked under a direct traditional transactional method instead of bundling approach for determining the arm's length. Further the comparables selected by the TPO was rejected on the ground of being functionally dissimilar.

Accordingly, the Hon'ble Delhi ITAT restored the matter back to the TPO with a direction to preferably apply CUP method and search exact comparables who provide similar nature of trademarks along with other services. The Hon'ble Delhi ITAT further directed that in case the TPO is unable to find appropriate comparables, the transaction should be benchmarked using TNMM by finding proper comparables.

Marks & Spencer (India) Pvt Ltd [TS-21-ITAT-2026(DEL)-TP]

3. *ITAT holds that mere reporting transaction in Form 3CEB does not apply Chapter X provisions.*

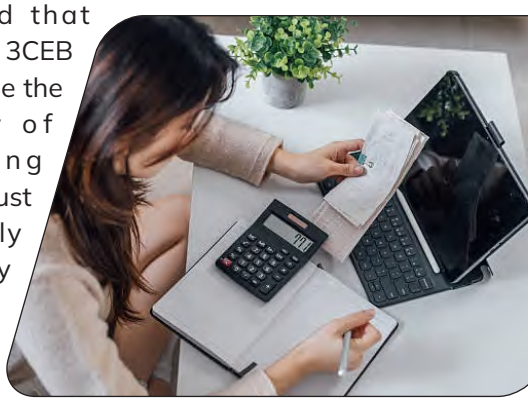
Maersk Tankers India Pvt Ltd ('the Assessee') domiciled in India and part of the Maersk Tankers Group is engaged in operating product tanker industry. It provided back-office support services to its holding company. During the relevant year, the Assessee entered into a Business Transfer Agreement for divestment of its Technical Management support services business to Lionheart Shipping Pvt. Ltd., an Indian resident group entity. The transaction was structured as a slump sale and the resultant capital gains were offered to tax under statutory requirements.

The case of the Assessee was selected for scrutiny and the AO was of the view that since the said transaction was reported in Form No. 3CEB, determination of the arm's length of the transaction would be required. Accordingly, a reference was made to the TPO. The TPO considered the alleged transaction as a deemed international transaction under Section 92B(2) on the grounds that the divestment was part of a global restructuring influenced by foreign group entities and accordingly proposed a transfer pricing adjustment.

Aggrieved by the draft assessment order, the Assessee filed its objections before the Hon'ble DRP. The Hon'ble DRP rejected the objections filed by the Assessee and upheld the order passed by the TPO on the ground that the transaction was embedded in a cross-border group strategy and therefore attracted Chapter X provisions.

Aggrieved, the Assessee filed an appeal before The Hon'ble Mumbai ITAT. The Hon'ble Mumbai ITAT examined whether the transaction between two Indian resident associated enterprises could be treated as an "international transaction" or a "deemed international transaction" under Section 92B. The Mumbai ITAT held that Section 92B(1) requires either or both parties to the transaction must be non-residents, which condition was not satisfied since both entities were residents in India. It further held that Section 92B(2) applies only where a transaction is entered into with a person other than an AE pursuant to a prior agreement with an AE. In the present case, the transaction was directly between two resident AE and therefore the statutory condition for invoking Section 92B(2) was not met.

It further placed its reliance on the decisions of the coordinate bench in cases of MWH India Pvt. Ltd.[10] and Reach Data Services India Pvt.[11] Ltd wherein the Hon'ble ITAT rejected the Hon'ble DRP's argument that ultimate foreign control or group-level restructuring could convert a domestic transaction into an international transaction. The Hon'ble Mumbai ITAT further clarified that disclosure in Form 3CEB does not determine the applicability of transfer pricing provisions and must be tested strictly against statutory requirements. Accordingly, it was held that Chapter X was not applicable, deleted the transfer pricing adjustment, allowed the assessee's appeal and dismissed the stay application as ineffective.



Maersk Tankers India Private Limited [TS-26-ITAT-2026(Mum)-TP]

4. *ITAT mandates 3 year availability of data as per Rule 10CA at the time of Assessment; For TNMM, the comparables having significant functional differences cannot be accepted*

Zydus Lifesciences Ltd ('the Assessee') is engaged in the manufacturing and trading of pharmaceutical related products, entered into international transactions with its Associated Enterprises (AEs), including provision of corporate guarantee, granting of optionally convertible loans, reimbursement of expenses, and sale of goods to AEs in the USA and France.

[10] *MWH India Pvt. Ltd [TS-698-ITAT-2022(Mum)-TP]*
[11] *Reach Data Services India Pvt. Ltd [TS-1012-ITAT-2019(Mum)-TP]*

The TPO rejected the Assessee's benchmarking analysis and made adjustments by applying an external CUP rate of 2.52% for corporate guarantee commission, imputing interest on optionally convertible loans using LIBOR/EU rates, determining the ALP of reimbursement transactions at nil, and revising the comparable set for distribution transactions. For sale of goods to the overseas AE, the TPO rejected certain comparables on grounds of functional differences. and non-availability of financial data for relevant years. The Hon'ble DRP, largely upheld the TPO's adjustments, granted partial relief on corporate guarantee commission, and rejected additional comparables in relation to the overseas AE transaction on the basis of functional differences.

The Hon'ble Ahmedabad ITAT observed that the issues relating to corporate guarantee, optionally convertible loans and reimbursement of expenses were identical to those decided in favour of the Assessee in earlier years. Applying the principle of consistency, the hon'ble Ahmedabad ITAT deleted the adjustments relating to these transactions.

With respect to the sale of goods to the overseas AE, the Hon'ble Ahmedabad ITAT noted that the Assessee had provided segmental information of pharmaceutical division of these entities and submitted details demonstrating that the majority of the sale operations of these comparable companies were overseas. Further the Hon'ble Ahmedabad ITAT also noted that these comparables had been accepted in earlier years. Since the tax authorities did not dispute these submissions made by the Assessee, the Hon'ble ITAT held that rejection of the comparables by the TPO/DRP was not justified and directed deletion of the adjustment.

In relation to the sale of goods to the overseas AE, the Hon'ble Ahmedabad ITAT held that under Rule 10CA of the Rules, comparables cannot be rejected merely due to temporary non-availability of financial data. If the data becomes available during assessment proceedings, the same should be considered for determining the ALP. Accordingly, the matter was restored to the TPO for limited verification of the financial data of four comparables.

However, the Hon'ble Ahmedabad ITAT upheld the rejection of certain comparables by the DRP on the ground that those companies were engaged only in retail distribution whereas the Assessee operated in both wholesale and retail segments, and the functional differences between the two segments were significant.

Zydus Lifesciences Ltd [TS-64-ITAT-2026(Ahd)-TP]

III. CIRCULARS AND NOTIFICATIONS

1. ***CBDT issues a press release announcing amendments to the India-France DTAA vide an amending protocol signed by India and France.***

The Press Release highlights that the Amending Protocol proposes to provide:

- The right to tax capital gains arising from the transfer of shares in a company resident in the source country is allocated to the source country, regardless of the level of shareholding held. This effectively eliminates the portfolio investment exemption previously available under the tax treaty.
- Deletion of Most Favored Nation (MFN) clause.
- Withholding tax rates on dividend income reduced from the present rate of 10% to 5% (in case of holding of at least 10%) and 15% in other cases.
- Narrow scope for FTS by introducing the 'make available' condition and inclusion of Service PE clause.
- Amendment to EOI provision and addition of a new Article on Assistance in Collection of Taxes.

IV. GOODS & SERVICES TAX AND CUSTOMS

A. Case Laws - GST and Customs

1. ***GST arrest upheld despite procedural objections; relief moulded on facts.***

The Assessees, a father and son, were arrested by the DGGI for alleged fraudulent availment of ITC of over INR 8 crore each, punishable under Section 132(1)(c) read with Section 69 of the CGST/Assam GST Acts. The Chief Judicial Magistrate granted bail citing procedural lapses under the Bharatiya Nagarik Suraksha Sanhita, 2023, including non-furnishing of detailed grounds of arrest to relatives. The High Court reversed the order holding that arrest memos, authorisation and grounds of arrest were served and acknowledged, and intimation of arrest was duly given. Against this order, the Assessees appealed before the Hon'ble Supreme Court.

Before the Apex Court, the principal issue was whether the arrests were vitiated by procedural lapses in communication of grounds of arrest and intimation to relatives, and whether the bail orders required interference.

The Hon'ble Apex Court examined the factual records and found that arrest memos along with annexures, including authorisation to arrest and grounds of arrest, were served on the Assessees at the time of arrest, with acknowledgment of receipt and confirmation that the grounds were explained to them. It was noted that immediate intimation of arrest was given to the wife of the father and mother of the son, which was acknowledged, and the arrest process was duly documented. The Hon'ble Apex Court held that there was substantial compliance with statutory safeguards under the CGST Act and the Bharatiya Nagarik Suraksha Sanhita, 2023, and that in absence of demonstrable prejudice, alleged minor procedural lapses could not invalidate the legality of arrest. Consequently, the Apex Court upheld the legality of the arrests and rejected the challenge based on procedural objections.

However, while affirming the legality of the arrest, the Hon'ble Court molded the relief on equitable and factual considerations. Taking note of the nature of allegations, the stage of investigation, and the personal circumstances of the Assessees, including that the son was a student and had already undergone custodial interrogation, the Apex Court restored the bail earlier granted to the son. In respect of the father, the Apex Court permitted limited custodial interrogation for specified consecutive days and directed that he be released thereafter, subject to conditions to be imposed by the Trial Court. Both Assessees were directed to cooperate with the ongoing investigation.

Shashi Kumar Choudhary v. Union of India [TS-5033-SC-2026-O]

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2. *Return mismatch case remanded to allow correction and fresh tax determination.*

The Assessee, Sterling & Wilson (P.) Ltd., engaged in EPC services, faced proceedings for FY 2018-19 due to mismatch between output tax declared in GSTR-1 (INR 31.36 crore) and GSTR-3B (INR 31.09 crore), resulting in an alleged short disclosure of INR 27,06,634. Demand was initially raised under Section 74 with interest and equivalent penalty. In first appeal, the authority held that transactions were reflected in debit/ credit notes and books and there was no intent to evade tax; however, as ITC utilization by recipients was not established, proceedings were converted to Section 73 and tax and interest were confirmed with reduced penalty. The Assessee challenged this before the GSTAT, contending that the discrepancy was reconciliatory and clerical.

The matter came before the Tribunal on the question - whether a tax demand could be sustained merely on the basis of return mismatch, and whether the Appellate Authority itself could conclude proceedings under Section 73 after holding Section 74 to be inapplicable.

The Hon'ble Court noted that the genuineness of debit notes, credit notes and accounting entries had already been accepted and that fraud or suppression was not established. The lapse related only to incorrect reflection of transactions in periodical returns, while the underlying transactions were duly accounted for in the books. It observed that the only allegation surviving against the Assessee was failure to correctly reflect such entries in returns and failure to establish ITC reversal by recipients, which required factual re-examination.

On the statutory framework, the Hon'ble Court relied on Section 75(2) of the CGST Act and CBIC Circular No. 254/11/2025-GST dated 27 October 2025, which clarify that once a notice issued under Section 74 is held unsustainable for absence of fraud or suppression, the tax must be re-determined by the Proper Officer by deeming the notice to have been issued under Section 73. The Hon'ble Court held that such re-determination cannot be undertaken by the Appellate Authority itself and must be carried out by the Proper Officer. Following the principles laid down in **V.S. Products v. Additional Commissioner (Appeals)[12]** and **Sun Export Corporation v. Collector of Customs[13],** it was held that the Assessee should be given an opportunity to amend returns and explain reconciliation.

The matter was therefore remanded to the Proper Officer for fresh adjudication with liberty to the Assessee to file amendments and supporting documents.

Sterling & Wilson (P.) Ltd. v. Commissioner, Odisha CT & GST, GST Appellate Authority, New Delhi [TS-73-GSTAT(DEL)-2026-GST]

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3. *Anti-profiteering confirmed where GST rate cut benefit not passed to consumers.*

Proceedings arose from a DGAP investigation against the Assessee, a manufacturer of instant noodles, based on a complaint alleging failure to pass on the benefit of

[12] *V.S. Products v. Additional Commissioner (Appeals) [TS-79-HC(BOM)-2024-GST]*
[13] *Sun Export Corporation v. Collector of Customs [1997] 93 ELT 641 (SC)*

GST rate reduction from 18% to 12% on goods falling under HSN 1902 brought into effect from 15 November 2017 vide Notification No. 41/2017–Central Tax (Rate) dated 14 November 2017. The investigation, conducted under Section 171 of the CGST Act read with Rule 129 of the CGST Rules, involved a comparison of average base prices in the pre-rate reduction period (1 November 2017 to 14 November 2017) with invoice-wise base prices in the post-rate reduction period (15 November 2017 to 31 December 2018).It was found that the Assessee had increased base prices of several SKUs and had not reduced prices commensurately and the total profiteering was computed at INR 90,90,310.

The Assessee contended that price revisions were driven by significant increases in raw material costs (wheat flour, palm oil, seasoning base), packaging materials, freight and fuel, and that the GST reduction provided only marginal relief compared to cost escalations. It was also argued that the Assessee followed a structured pricing policy and that the off-cycle price revision coinciding with the rate reduction was commercially justified. However, DGAP's invoice analysis showed that cost increases related to periods prior to 15 November 2017 and that base prices were revised upward contemporaneously with the GST rate cut, without corresponding price reduction to consumers.

The issue before the Tribunal was whether the Assessee contravened Section 171(1) of the CGST Act by not passing on the benefit of tax reduction through commensurate price reduction.

The Hon'ble Court observed that Section 171 mandates passing on tax reduction benefits through price reduction. While suppliers may revise base prices for commercial reasons, any increase coinciding with a tax reduction must be justified by cogent contemporaneous evidence. Relying on the principles recognised by the Hon'ble Delhi High Court in **Reckitt Benckiser India (P.) Ltd. v. Union of India**[14], it held that the Assessee failed to justify the increase as most cost escalations related to the pre-reduction period. Invoice analysis showed that base prices were revised upward immediately after the GST reduction.

Accordingly, profiteering of INR 90,90,310 was confirmed and the Assessee was directed to deposit the amount in the Consumer Welfare Fund, while no interest or penalty was imposed in view of the Supreme Court ruling in **CIT (Central)-I v. Vatika Township (P.) Ltd.**[15] on retrospective fiscal liability.

DG Anti-Profiteering v. C.G. Foods, GST Appellate Authority, New Delhi [TS-56-GSTAT(DEL)-2026-GST]

[14] *Reckitt Benckiser India (P.) Ltd. v. Union of India [TS-24-HC(DEL)-2024-GST]*
[15] *CIT (Central)-I v. Vatika Township (P.) Ltd. [TS-573-SC-2014]*

4. Legality of interest and penalties on Advance Authorization imports prior to 2024 amendment under review; notice issued in SLP.

The Respondent, an importer under the Advance Authorization scheme, was aggrieved by an adjudication order demanding interest, imposition of fine and penalty, and confiscation of goods imported between 27-10-2017 and 27-3-2018. The demand arose from an alleged contravention of "pre-import conditions" under the notification[16]. The Bombay High Court quashed the demand, holding that the amendment to Section 3(12) of the Customs Tariff Act, 1975, which enabled application of Customs Act provisions for interest and penalties to IGST, was prospective and effective only from 16-8-2024. The Union of India challenged this decision before the Hon'ble Supreme Court.

Before the Hon'ble Court, the principal issue was whether the amendment to Section 3(12) of the Customs Tariff Act, 1975, applied only prospectively and whether C.B.I.&C. circular[17], which sought to recover interest on such imports, was valid in law.

The Union of India contended that the unamended Section 3(12) already constituted "legislation by reference," meaning the power to levy IGST inherently included the power to levy interest and penalties. Reference was made to the **Constitution Bench judgment in Ujagar Prints**[18] to support this interpretation. In response, the Respondent relied on the dismissal of SLP in **Union of India v. Mahindra**[19] & Mahindra and the judgment in **CCE Ahmedabad v. Orient Fabrics Limited**[20], arguing that without specific statutory language, interest and penalties cannot be levied.

The Hon'ble Court noted that the High Court had already held that in absence of a specific reference to interest and penalties in the unamended provisions, the demand for interest and confiscation of goods could not be sustained. It was further noted that the High Court found the circular to be bad in law to the extent it sought such recoveries. Considering the significant legal questions involved, the Hon'ble Court condoned the delay and issued notice to further examine the matter.

The Hon'ble Court directed the parties to complete their pleadings and file short notes of submissions along with a compilation of case law. The matter is listed for further consideration on 7-4-2026.

[16] *Notification No. 18/2015-Cus., dated 1-4-2015 as amended by Notification No. 79/2017-Cus., dated 13-10-2017.*
[17] *CBIC Circular No. 16/2023-Cus, dated 07-06-2023*
[18] *Ujagar Prints Writ Petn. Nos. 12183 of 1985 and 219-224 of 1987 C.A. Nos. 1685-1766 of 1979*
[19] *Union of India v. Mahindra & Mahindra 2023 (386) E.L.T. 11 (S.C.)*
[20] *CCE Ahmedabad v. Orient Fabrics Limited [2003 (158) E.L.T. 545 (S.C.)]*

Union of India v. A.R. Sulphonates Pvt. Ltd., Supreme Court of India [TS-5034-SC-2026-O]

5. *Final CESTAT ruling on Section 155(2) protection binds authorities; de novo proceedings disregarding judicial discipline held tainted.*

The Applicants, Customs officers at various levels, were issued a show-cause notice (SCN) under Section 124 of the Customs Act, 1962, alleging abetment in over-invoicing of duty-exempted 'rough diamonds'. During the initial adjudication, the officers argued that the proceedings were barred as the mandatory protection under Section 155(2) of the Act, requiring a month's previous notice for actions taken in pursuance of the Act, had not been invoked. In an earlier round, the CESTAT held that an SCN issued under Section 124 is not a substitute for the notice required under Section 155(2) and remanded the matter solely to locate the specific "trigger" or timeline to ascertain compliance with Section 155(2). Despite this order attaining finality, the adjudicating authority in de novo proceedings repeated the discarded error, treating the original SCN as sufficient compliance. The Applicants moved the Tribunal under Rule 41 of the CESTAT (Procedure) Rules, 1982, alleging a breach of judicial discipline.

Before the Hon'ble Tribunal, the principal issue was whether the adjudicating authority could disregard a final legal determination by a superior appellate body in revived proceedings and whether such defiance taints the legality of the de novo order.

The Hon'ble Tribunal observed that the previous CESTAT ruling had attained finality as it was not challenged by the Revenue before the High Court or Supreme Court. The Tribunal noted that the adjudicating authority's repetition of a discarded error was not merely a factual disagreement but a "defiant disregard" of appellate rulings and anathema to judicial decorum. Relying on the Supreme Court's landmark decision in **Union of India v. Kamalakshi Finance Corporation Ltd.**[21], the Tribunal emphasized that subordinate authorities are bound to follow the orders of higher appellate authorities unreservedly, even if they disagree with the correctness of such orders. The failure to comply with the law as determined in the first round was held to have tainted the entire de novo process.

[21] *Union of India v. Kamalakshi Finance Corporation Ltd. AIR 1992 SC 711*

The Hon'ble Tribunal held that the conduct of the adjudicating authority amounted to contempt of law and administrative indiscipline. While acknowledging that the de novo order would normally need to follow the standard appellate route, the Tribunal asserted its power to protect the integrity of its own final orders. Consequently, the Tribunal directed that a copy of the order be sent to the Revenue Secretary and the Chairman of the CBIC to address these "tendencies in the field".

The Hon'ble Tribunal disposed of the applications by directing the jurisdictional Commissioner of Customs to review the de novo adjudication order under Section 129D of the Customs Act, 1962, specifically to address its lack of legality and propriety in failing to follow the judicial determination regarding Section 155(2).

Vinay Brij Singh v. Commissioner of Customs (APSC), Mumbai, CESTAT, West Zonal Bench, Mumbai, Miscellaneous Order Nos. 85118-85120/2026, decision dated 27 January 2026.

B. *Notifications, Circulars & Instructions – GST & CUSTOMS*

1. *Notification No. 3/2026–Customs (N.T.), dated 15th January 2026*

The Central Government has amended the **Customs and Central Excise Duties Drawback Rules, 2017**, effective **15 January 2026**. This amendment incorporates exports made under **Section 84** of the Customs Act, 1962, into the drawback framework. Under the revised rules, entries made for postal exports are recognized as valid documentation for claiming drawback, similar to shipping bills or bills of export used in air or sea cargo.

The notification establishes separate procedures for manual and electronic filings. **Rule 12** is restricted to manual entries made under Section 84. For electronic filings, **sub-rule (1A)** is inserted into **Rule 14**, which provides that an electronic entry for postal exports serves as a deemed drawback claim. The filing date for such a claim is the date the entry is received on the **Electronic Data Interchange (EDI)** system, provided the proper officer has issued the order for clearance and loading of the goods.

Rules 13 and 14 have been updated with revised headings to distinguish between manual postal

exports and those processed electronically. For electronic postal exports, the system automatically triggers the drawback claim upon receipt of the EDI entry and subsequent customs clearance. This process replaces the previous requirement for a separate drawback application for these specific types of exports.

2. *Notification No. 4/2026–Customs (N.T.), dated 15th January 2026*

The notification has been issued to extend the benefits of the RODTEP (Remission of Duties and Taxes on Exported Products) scheme to postal exports. This notification amends the principal notification[22] to include electronic entries made under Section 84 of the Customs Act, 1962, within the scope of the duty credit ledger system.

Under the amended rules, duty credits are issued for postal exports once an electronic entry is recorded and the proper officer issues an order permitting the clearance and loading of the goods. To be eligible for these credits, the exports must be processed through designated Foreign Post Offices (FPOs) that are integrated with automated customs systems for electronic data presentation. This integration allows for the digital capture of export data required for the automated issuance of remission credits.

The notification also modifies the definitions and tables in the original RODTEP framework to treat electronic postal entries as equivalent to shipping bills or bills of export. This alignment enables exporters using the postal network to access tax remissions through a digital process, provided they follow the prescribed electronic filing and registration procedures on the ICEGATE portal.

3. *Notification No. 5/2026–Customs (N.T.), dated 15th January 2026*

The Central Government has issued the notification to extend the **RoSCTL (Rebate of State and Central Taxes and Levies)** scheme to goods exported via post. By amending earlier notification[23], the government now allows duty credits for postal exports processed electronically under **Section 84** of the Customs Act, 1962.

Eligibility is limited to exports through **Foreign Post Offices** that support the customs automated system for electronic entries. A valid claim is triggered once the proper officer issues an order permitting the clearance and loading of the goods. These updates ensure that electronic postal records are treated with the same legal status as traditional shipping bills, simplifying tax rebates for e-commerce and textile exporters using the postal network.

4. *Notification No. 7/2026–Customs (N.T.), dated 15th January 2026*

CBIC has issued the notification, effective from its publication date, to modernize the **Postal Export (Electronic Declaration and Processing) Regulations, 2022.** Issued under Sections 157 and 84 of the Customs Act, 1962, this amendment focuses on updating the digital interface for international mail.

There is a **complete substitution of Form PBE-III and Form PBE-IV.** These are primary electronic declarations for postal exports, and their replacement ensures compatibility with the latest customs automated systems. This update is essential for accurately capturing data required for recently expanded export incentive schemes, such as RoDTEP and RoSCTL, which now support postal routes.

Exporters and e-commerce entities must transition to these new formats immediately to avoid processing delays. The substitution of these forms streamlines the "deemed filing" process, where an electronic entry under Section 84 is automatically treated as a claim for export benefits upon customs clearance.

5. *Notification No. 12/2026–Customs (N.T.), dated 1st February 2026*

This notification is set to expand the scope of the deferred duty payment scheme. By amending the parent notification[24], the government has introduced a new category of beneficiaries titled "Eligible Manufacturer Importer". This category is specifically defined as a "Manufacturer Importer" within the updated explanation of the rules.

The newly notified class of importers is now permitted to utilize the deferred payment of import duty facility. Under Section 47 of the Customs Act, 1962, this benefit allows eligible entities to clear goods for home consumption while paying the applicable duties at a later, specified date rather than immediately upon clearance. The notification sets a clear statutory timeline, providing that this facility for Eligible Manufacturer Importers will remain available until 31 March 2028.

6. *Notification No. 13/2026–Customs (N.T.), dated 1st February 2026*

The Central Government has introduced the **Deferred**

[22] *Notification No. 24/2023-Customs (N.T.)*
[23] *Notification No. 25/2023-Customs (N.T.)*
[24] *Notification No. 135/2016-Customs (N.T.)*

Payment of Import Duty (Amendment) Rules, 2026, effective from 1st March 2026. This notification amends Rule 4 to establish a simplified, two-tier payment schedule for eligible importers.

For any month except March, duty for Bills of Entry returned for payment must be settled by the 1st day of the following month. However, to accommodate the fiscal year-end, duties for all Bills of Entry processed during the month of March must be paid by 31st March.

This change replaces the previous multi-period cycle with a more direct monthly deadline, streamlining administrative compliance for "Eligible Manufacturer Importers" and other authorized entities.

7. Notification No. 14/2026–Customs (N.T.), dated 1st February 2026

The Central Government has introduced the Baggage Rules, 2026, effective from 2nd February 2026, which officially supersede the previous 2016 regulations. These new rules provide a comprehensive framework for duty-free allowances and restrictions for all passengers entering India, including residents, tourists, and infants. Under the updated guidelines, every passenger is permitted to clear used personal effects and travel souvenirs required for daily necessities without paying duty, provided they are not listed as restricted items in Annexure-I.

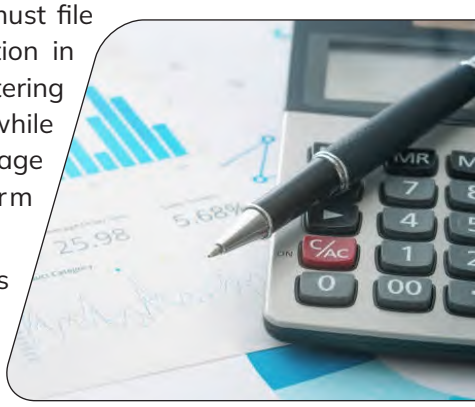
For general merchandise carried in accompanied baggage, the duty-free allowance varies based on the passenger's status and mode of arrival. Residents and tourists of Indian origin arriving by air or sea are granted a general free allowance (GFA) of ₹75,000, while tourists of foreign origin receive a lower GFA of ₹25,000. Passengers arriving by land are restricted to duty-free clearance of only used personal effects for daily necessities. Notably, passengers aged 18 and above are also entitled to bring one new laptop or notepad duty-free as part of their bona fide baggage.

Special provisions are established for specific categories such as jewellery and transfer of residence. Residents or Indian-origin tourists who have lived abroad for over a year are allowed duty-free jewellery up to 40 grams for females and 20 grams for other passengers. Additionally, the rules facilitate the temporary import of personal effects for tourists and provide enhanced allowances for individuals transferring their residence to India. These allowances are strictly individual and cannot be pooled with the allowances of any other passenger.

Administrative aspects such as unaccompanied baggage and crew member restrictions are also clarified. Unaccompanied baggage is generally allowed if it was in the passenger's possession abroad and arrives within one month of the passenger, though extensions may be granted for circumstances like sudden illness or natural calamities. The import of pets and currency continues to be regulated by specific Ministry guidelines and FEMA regulations, respectively.

8. Notification No. 15/2026–Customs (N.T.), dated 1st February 2026

CBIC has introduced the Customs Baggage (Declaration and Processing) Regulations, 2026, effective from 2 February 2026. These regulations modernize the declaration process by mandating the use of an automated system, such as the ICEGATE portal or the Atithi mobile application, for all passengers carrying dutiable or prohibited items. Arriving passengers must file an electronic declaration in Form CBD-I before entering the Green Channel, while unaccompanied baggage is declared via Form CBD-II.



Specific requirements are now digitized, including advance declarations for pets (requiring an NOC) and currency. Residents intending to re-import personal effects duty-free must obtain an electronic Export Certificate (CBD-III) before departure, while tourists can secure a Temporary Baggage Import Certificate (CBD-IV) for items they plan to re-export. Passengers who have filed these declarations must present themselves at the Red Channel for verification and duty payment.

The regulations also streamline the transit of unaccompanied baggage, allowing transshipment between customs stations by air, rail, or road under bond. Any baggage that remains unclaimed or is detained under a Detention Receipt (CBD-V) must be cleared within six months, or it may be sold by the authorities to recover costs and duties. All electronic records and supporting documents must be retained by the passenger for five years from the date of filing.

9. Circular No. 6/2026–Customs, dated 1st February 2026

The circular is regarding automation of import and export processes. The circular implements three

specific measures: auto goods registration and auto Out of Charge (OOC) for imports, auto goods registration for e-sealed export cargo, and the issuance of Auto-Let Export Order (LEO).

In import operations, the system will automatically perform goods registration for AEO T2 and T3 entities, approved "Eligible Manufacturer Importers," importers with longstanding supply chains, and those using Direct Port Delivery (DPD) facilities. Additionally, the Auto OOC facility is extended to all importers, provided that all duties are paid and there are no pending compliance requirements. This automated OOC functions without manual intervention for the specified eligible categories.

For exports, an online goods registration facility is enabled for all exporters to replace the requirement of approaching Customs officers in person. A pilot project for e-seal-based auto goods registration is established at Nhava Sheva, Mumbai (INNSA1), with phased expansion to other ports contingent on implementation of e-seal scanners. Once goods are registered, an Auto-LEO will be granted to facilitated Shipping Bills that are not selected for examination or assessment, do not require a Participating Government Agency (PGA) NOC, and have all applicable duties or cesses paid.

While Auto OOC and Auto LEO are granted based on risk-based evaluation, Customs officers retain the ability to invoke a "HOLD" in the system to override the automation based on intelligence. Zonal Heads are responsible for the integration of e-seal readers with the Customs System, and the DG Systems is directed to issue an advisory for online goods registration in exports.

10. Circular No. 7/2026–Customs, dated 1st February 2026

The circular introduces two specific measures for the examination of import cargo: the use of Body Worn Cameras (BWC) by Customs officers and a system-based e-scheduling application on ICEGATE 2.0.

The mandate for Body Worn Cameras requires officers to record the physical examination of cargo from the stage prior to opening packages or containers until the process is complete. These recordings must capture the condition of seals, verification of goods, sampling, and interactions with the importer or their representative. The recordings are to be securely stored for two years, or until the final disposal of proceedings in cases involving litigation or investigation.

The second measure is implementation of a System-based Examination Application on ICEGATE 2.0. This application digitizes the scheduling of physical examinations for goods selected through risk evaluation under Sections 17 and 46 of the Customs Act, 1962. This move is intended to create a digital audit trail of the timing and manner of the examination process.

Both the BWC requirement and the e-scheduling application will be fully implemented across all customs formations by 01.04.2026. DG Systems is directed to issue a detailed advisory for the trade regarding the e-scheduling application, and Principal Commissioners are tasked with monitoring strict compliance with these new protocols.

V. REGULATORY UPDATES

1. Consultation Paper on Guidelines for Algorithmic Trading on the Stock Exchanges

IFSCA has issued consultation paper inviting comments and suggestions from market participants on 'Guidelines for Algorithmic Trading on the Stock Exchanges'. Algorithmic trading also known as algo-trading or black-box trading involves the use of basic algorithms to feed portions of an order into the market based on basic parameters such as price, volume and time.

This move comes in response to concerns that certain high frequency trading strategies may contribute to heightened market volatility and create potential risks of market manipulation through co-location arrangements and ultra-fast order execution. The proposed guidelines seek to enhance accountability, improve transparency, and reinforce overall market stability.

The stock exchanges are directed to synchronize their system clocks with a precision of at least one microsecond and an accuracy of ± one millisecond. A market participant may provide or undertake algorithmic trading only after obtaining prior permission from the stock exchange. The stock exchange may refuse permission for any trading algorithm or class of trading strategies, or require modifications, for the purpose of ensuring orderly trading and maintaining market integrity. Stock exchanges are required to inform IFSCA, along with the rationale for such rejection or required modifications.

The price quoted in an Algorithmic Trading Order shall not violate the price bands defined by the exchange for the relevant security. For securities without prescribed price bands, appropriate dummy filters shall be implemented to serve as a warning. The quantity quoted in the order shall not violate the maximum permissible quantity per order as defined by the exchange.

Market participants seeking to place orders generated through Algorithmic Trading shall submit an undertaking to the respective stock exchanges confirming that they have adequate procedures and system capabilities to undertake such trading. Further, they shall maintain logs of all trading activities to ensure a clear and verifiable audit trail and shall promptly inform the stock exchange of any changes to the approved trading algorithms or systems.

The stock exchanges shall ensure that all Algorithmic Trading Orders are tagged with unique identifiers to facilitate a clear audit trail of orders entering the system, up to the level of the individual market participant.

The draft circular provides stock exchanges with operational flexibility to introduce a framework of financial disincentives for high daily Order-to-Trade Ratios (OTR) arising from Algorithmic Trading Systems. These may include graded penalties in the form of charges levied per algorithmic order, designed to act as an effective deterrent against order flooding and potential market disruption.

In cases of persistent OTR violations specifically where penalties are triggered more than ten times within a rolling thirty-day period, the stock exchange may suspend the market participant's proprietary trading privileges for the opening hour of the next trading session. Additionally, exchanges are required to implement robust monitoring mechanisms to detect and curb instances of order flooding by algorithmic traders.

Market participants offering Algorithmic Trading facilities must subject their systems to an annual system audit to ensure compliance with IFSCA and stock exchange requirements. Such audits must be conducted by qualified System Auditors holding prescribed certifications (including CISA, DISA, CISM, or CISSP), or by auditors with at least ten years of experience in auditing Algorithmic Trading Systems. An auditor may undertake a maximum of three consecutive audits for the same participant, with a mandatory two-year cooling-off period before re-appointment.

Any deficiencies identified during the audit must be reported to the stock exchange within one month of completion, with corrective actions implemented promptly and a closure report submitted within two months. In cases of serious deficiencies or failure to take satisfactory corrective action, the stock exchange may prohibit the use of the relevant Trading Algorithm or Algorithmic Trading System until issues are rectified and a satisfactory audit report is furnished. Exchanges may also impose penalties for non-compliance.

Stock exchanges are directed to implement the prescribed framework within a period of three months from the date of issuance of the circular and amend relevant bye-laws and regulations, inform market participants, and establish minimum risk controls for existing algorithmic traders within the prescribed timeline.

2. *SEBI circular on Closing Auction Session (CAS) in the equity cash segment of Stock Exchanges*

SEBI has issued a circular dated January 16, introducing the Closing Auction Session (CAS) in the equity cash segment of Stock Exchanges. Currently, the closing price of stocks in the equity cash segment is determined on the basis of Volume Weighted Average Price (VWAP) of trades executed during the last thirty minutes of the continuous trading session. The introduction of CAS aims to align Indian markets with global standard.

The closing price plays a significant role as it acts as a reference for settlement in derivatives, index computation and mutual fund Net Asset Value (NAV) determination.

Under the framework, CAS will be introduced in a phased manner and will initially apply to stocks in cash segment on which derivatives contracts are available. CAS shall operate as a separate 20-minute session from 3:15 p.m. to 3:35 p.m. on all trading days, structured into four sessions of five minutes each. The equity derivatives segment shall continue to operate until 3:40 p.m. Special trading sessions, if any, shall mirror the duration of CAS.

The reference price for CAS shall be the VWAP of trades between 3:00 p.m. and 3:15 p.m. and a price band of ±3% from the reference price will apply during

CAS. If no trades occur during this period, the day's Last Traded Price shall apply, failing which the previous trading day's closing price shall be considered. In case of corporate action, the adjusted closing price or base price shall apply.

Only limit and market orders shall be permitted in CAS. Iceberg and stop-loss orders shall not be allowed. Orders must be disclosed in full quantity. The closing price shall be determined through the equilibrium price mechanism, being the price at which maximum executable volume is matched. In case of multiple eligible prices, selection shall be based on minimum unmatched quantity and proximity to the reference price. Where no equilibrium price is discovered, the reference price shall be treated as the closing price.

The circular also aligns the Pre-Open Auction Session framework with the CAS structure. The pre-open session will continue to operate from 9:00 a.m. to 9:15 a.m., with order entry periods for market and limit orders, random closure of the order entry window, and order matching based on the equilibrium price mechanism.

The CAS framework will be implemented from August 03, 2026, while the modifications to the pre-open session framework will come into effect from September 07, 2026. Stock exchanges and clearing corporations are required to develop necessary systems, strengthen surveillance mechanisms, and issue operational guidelines to ensure smooth implementation. They are also required to amend relevant bye-laws and regulations and communicate the provisions of the circular to market participants.

3. *SEBI proposes to allow netting of funds for transactions by FPIs*

SEBI has issued a consultation paper proposing permitting netting of funds for cash market transactions undertaken by Foreign Portfolio Investor (FPI). The proposal have been introduced considering the feedback received regarding review of the existing practice, with the objective of enhancing operational efficiency and reducing funding costs of FPIs.

Currently, the FPIs are required to settle transactions on gross basis at custodian level, even though custodians settle on a net basis with clearing corporations. For instance, where an FPI simultaneously purchases and sells securities of equivalent value, the investor must still arrange funds for the purchase transaction even though sale proceeds will be received later in the settlement cycle. This leads to additional liquidity requirements, forex conversion costs and short-term funding pressure especially during high volume events such as index rebalancing.

Under the proposed framework, Under the proposed mechanism, proceeds from outright sale transactions may be used to offset purchase obligations on the same day, thereby requiring FPIs to fulfill only the net fund obligation. Transactions involving both buy and sell in the same security would continue to be settled on a gross basis, and such intra-day transactions will be excluded from the netting framework.

SEBI has also clarified that settlement of securities will continue on a gross basis between FPIs and custodians, and statutory levies such as Securities Transaction Tax (STT) and stamp duty will continue to be charged on a delivery basis.

4. *SWAGAT-FI Framework Extended to Foreign Venture Capital Investors*

SEBI has issued a circular extending the Single Window Automatic and Generalised Access for Trusted Foreign Investors (SWAGAT-FI) framework to Foreign Venture Capital Investors (FVCI). The circular follows the FPI regulation amendments notified in December 2025 which was aimed at simplifying the onboarding process and ongoing compliance requirements for trusted foreign investors.

Under the revised framework, a SWAGAT-FI applicant may apply for registration as an FVCI simultaneously with its application for registration as a FPI, without the need to submit a separate application form or supporting documentation for the FVCI registration. Such applications will be processed based on the information and documents already submitted for the FPI registration, provided the applicant appoints the same custodian and Designated Depository Participant (DDP) for both registrations. Existing eligible FVCIs may also convert to SWAGAT-FI FVCI status by submitting an application to their DDP.

The circular also introduces compliance relaxations for SWAGAT-FI FVCIs. Registrations under this category will be valid for ten years, compared to the standard five-year renewal cycle applicable to other FVCIs. In addition, the periodicity of KYC review for SWAGAT-FI FVCIs will be once every ten years, thereby reducing the compliance burden for eligible investors.

Depositories, custodians and DDPs have been directed to update their systems to operationalize the framework. The provisions of the circular will come into effect from June 01, 2026.

5. *SEBI Defines Retail Individual Investor, Permits Incentives in Debt Issues*

SEBI has introduced certain amendments to SEBI (Issue and Listing of Non-Convertible Securities) (Amendment) Regulations, via its notification dated 20th January, 2026.

A new definition has been added in the regulations specifying that a "retail individual investor" refers to an individual who applies or bids for debt securities valued at not more than two lakh rupees.

Regulation 31 of the above-mentioned regulations generally prohibits any person connected with an issue from offering incentives, whether direct or indirect, in cash, kind, services or otherwise, to induce applications in the issue, except for legitimate fees or commissions for services rendered in relation to the issue.

The current amendment introduces an exception to this restriction by permitting issuers to offer incentives in the form of additional interest or a discount to the issue price to certain categories of investors. These include senior citizens, women, serving and retired defense personnel, widows and widowers of defense personnel, and retail individual investors, as well as any other category of investors that may be specified by SEBI from time to time.

6. *SEBI introduces capacity planning and real time performance monitoring framework for commodity derivatives segment of MIIs*

SEBI through a circular dated February 11, 2026 has introduced a framework for capacity planning and real-time performance monitoring which is applicable to the Commodity Derivatives Segment of MIIs

This framework aligns several provisions of an earlier circular issued by SEBI dated December 10, 2024 ('the circular') which was applicable to all stock exchanges, clearing corporations and depositories for all segments except for the commodity derivative segment. The circular stated that MIIs must:

- Adopt a capacity-planning framework that uses trend analysis, historical and projected transaction volumes, system-utilization patterns, and expected business growth to estimate upcoming capacity needs and avoid service disruptions.
- Maintain sufficient system capacity, calculate projected peak load for the next 60 days based on sustained peak-load trends from the previous 180 days, and adhere to specific sustained-load limits for exchanges, clearing corporations, and depositories.
- Conduct quarterly stress tests, periodic scalability testing, and SOP-driven visibility into each IT component's performance and interdependencies.
- Continuously monitor all IT systems network, hardware, software, security devices, vendor components, etc. through automated real-time performance and alerting systems supported by a dedicated response team, with quarterly reviews of monitoring effectiveness.
- Maintain an asset register, apply SCOT-approved utilization thresholds, and immediately enhance capacity when components exceed 75% utilization (or for depositories, over a 15-day rolling window).
- Maintain a Board and SCOT approved policy on capacity planning and real-time performance monitoring, reviewed annually to ensure readiness for current and future business demands

The above guidelines shall apply mutatis mutandis to commodity derivatives segment.

Further, for the commodity derivatives segment specific modifications are made in the framework which requires MIIs to:

- Maintain an installed system capacity at least twice the projected peak load and
- Take immediate action if actual capacity utilization of any component in the Commodity Derivatives segment exceeds 75% of installed capacity, ensure SCOT oversight of such actions, and include procedures for capacity augmentation within their Capacity Planning and Real-Time Performance Monitoring Policy.

Additionally, MIIs are instructed to prepare and submit their capacity planning and real-time performance monitoring policy document for commodity derivatives segment to SEBI within three months from the date of this circular after taking SCOT and governing board's approval.

The circular will come into effect three months from the date of issuance and supersedes the earlier capacity requirement under the SEBI Master Circular for Commodity Derivatives Segment dated August 4, 2023.

7. *SEBI issues new compliance framework for rating financial instruments regulated by other financial sector regulators*

SEBI through its circular dated February 10, 2026 has prescribed additional compliance requirements for Credit Rating Agency (CRAs). CRAs which undertake rating financial instruments falling under the purview of other Financial Sector Regulators (FSRs) are required to adhere to the following requirements.

The framework requires CRAs to maintain separate grievance-handling email IDs and distinct website sections for SEBI-regulated and non-SEBI-regulated activities. Further, it is directed that all other resources related to the investor grievance mechanism can be shared except for email IDs.

CRAs should also ensure that the minimum net worth requirement specified under the CRA regulations is not affected by such assignments, and that net worth stipulations, if imposed by other FSRs, are over and above the requirements specified by SEBI.

CRAs must clearly disclose all activities along with their respective regulators and keep marketing materials segregated between SEBI-regulated and other FSR-regulated activities. They must also clearly disclose on their website and in marketing material that SEBI's investor protection and grievance / dispute redressal mechanisms will not be available for activities regulated by other FSRs.

Additionally, all rating reports and press releases issued after the effective dates must explicitly mention the relevant regulator and clarify that SEBI's investor protection and grievance mechanisms do not apply to instruments under other FSRs. In cases where a CRA issues a common rating report or press release / rating rationale, clear segregation and labelling of SEBI-regulated instruments and those under other FSRs must be provided.

Before undertaking such ratings, CRAs are directed to provide written disclosures to clients about the nature of the activity, risks involved, and lack of SEBI protections, and must also obtain written acknowledgments from clients. Additionally, written intimations containing similar disclosures must be sent to existing clients, and CRAs must confirm compliance to SEBI after sending these intimations.

These provisions take effect 60 days from the date of the circular, while rules on grievance segregation and client intimation will be applicable after a period of 12 months.

8. *SEBI announces one-year special window for transfer & dematerialization of physical securities*

SEBI, through its circular dated January 30, 2026, has introduced a special one-year window aimed at resolving the pending issues related to the transfer and dematerialization of physical securities that were sold or purchased before April 1, 2019.

This special facility will remain open for a period of 1 year from February 5, 2026, to February 4, 2027. This window will also cover transfer requests that were earlier rejected, returned, or left unattended due to documentation issues or other deficiencies.

SEBI has mandated that all physical securities processed during this period will be transferred exclusively in demat form and placed under a mandatory one-year lock-in. During the lock-in period these securities cannot be transferred, pledged, or lien-marked.

To be eligible, investors must submit a complete set of documents which include:

- Original security certificates,
- Transfer deeds executed prior to April 2019,
- Proof of purchase as may be available,
- Valid KYC documents,
- A recent Client Master List (not older than 2 months) of the demat account of the transferee attested by the Depository Participant and
- An Undertaking cum Indemnity as per the prescribed format.

SEBI has clarified that disputes between transferors and transferees are outside the scope of this window and must be resolved independently through courts or the NCLT. Similarly, securities transferred to the Investor Education and Protection Fund (IEPF) cannot be processed under this scheme.

Additionally, the circular outlines detailed responsibilities for listed companies, Registrars RTA, and depositories which include mandatory verification of PAN, identity, address, and signatures. Further, the circular also lays down the process to be followed for non-delivery of objection memo to the transferor / non-availability of any document required for the transfer.

It has also been stated that in case of death of transferee as per the executed transfer deed, legal heirs

can claim the securities with all documents as per the transmission procedure. Also, listed companies / RTAs are directed to intimate the depository regarding the one-year lock-in period while giving credit of securities in the demat account of the transferee. Upon detection of fraud during the lock-in period, the lock-in should continue on the securities till further intimation and the such securities shall only be released in the favour of the claimant as per order from competent court for release of securities.

Additionally, listed companies and RTAs are expected to process transfer requests with complete documentation within 70 days of receipt of request from the transferee.

Stock exchanges, listed companies, and RTAs are directed to publicize this special window once every two months throughout the year to maximize investor awareness.

9. *SEBI seeks consultation on provisions related to base price and price bands for ETFs*

SEBI has released a consultation paper proposing to revise the base price determination and price band framework for Exchange Traded Funds (ETF). This is proposed with the intention of aligning the prices of ETFs along with the underlying assets.

SEBI is reviewing the way ETFs are priced and traded, as the current system has begun to show clear limitations, especially during periods of sharp market volatility.

At present, stock exchanges use a fixed price band of ±20% for all ETFs, except Overnight ETFs which operate under a ±5% band. More importantly, exchanges determine the daily base price of ETFs using the T-2 day closing NAV and hence, the existing system creates a natural lag between actual asset prices and ETF market prices.

The most significant concern arises from using the T-2 NAV as the base reference. NAVs typically change every day, so relying on older values means ETF prices can become misaligned with the true worth of their underlying assets. Also, corporate actions are made effective on T-1 day, such as dividends or bonuses which are manually adjusted in the T-2 NAV which raises concern for potential human error.

Furthermore, the price band of ±20% for all ETFs does not reflect the wide variation in volatility among ETF categories. While equity ETFs may rarely require such wide bands, gold and silver ETFs which track commodities trading globally 24 hours a day often see movements that exceed these boundaries, particularly during periods of international market turbulence. SEBI noted that during the recent surge in gold and silver volatility, Indian ETF bands became too restrictive, preventing prices from adjusting naturally to global changes.

To address these problems, SEBI has proposed a new, more dynamic framework. One of the recommendation is to update how the base price for ETFs is calculated. The Secondary Market Advisory Committee (SMAC) recommended using the latest available indicative NAV (iNAV) of T-1 day as the reference price for determining ETF price bands on the trading day (T Day).

However, since the latest iNAV may represent a single point value and could potentially be an outlier, SEBI has proposed the following alternative approaches for determining the base price -

- Closing price of ETFs on T-1 Day (i.e. weighted average traded price of last 30 minutes)
- Closing NAV of ETFs on T-1 Day (if available),
- Average iNAV of last 30 minutes on T-1 Day, or
- Latest available iNAV on T-1 Day.

Further, SEBI has also proposed category-wise revisions to the existing price band system. We have tabulated the same below –

	Equity / Debt Index	Commodity (Gold / Silver)	Overnight (TREPs)
Existing Price Band	±20% (Fixed)	±20% (Fixed)	±5% (Fixed)
Initial Price Band	±10%	±6%	±5% (continued)
Flexing Mechanism	Initial band of ±10% may be flexed up to ±20% during the trading day subject to cooling-off. Maximum two instances of flexing allowed.	Initial band of ±6% may be flexed up to ±20% during the trading day in stages of 3% with cooling-off periods.	Not applicable (existing price band continues).
Relaxation	After exhausting the initial band, a 15-minute cooling-off period applies (5 minutes if within the last 30 minutes of trading), after which the band is relaxed by 5%.	After exhausting the initial band, a 15-minute cooling-off period applies, after which the band is relaxed by 3%. Further relaxation in stages of 3% may occur if international market movement exceeds the aggregate DPL of 9%.	Not applicable.

	Equity / Debt Index	Commodity (Gold / Silver)	Overnight (TREPs)
Conditions	Relaxation permitted when at least 50 trades are executed with 10 Unique Client Code (UCC) and 3 trading members on each side of the trade at or above ~9.90% threshold.	Additional relaxation allowed where international commodity price movement exceeds the aggregate Daily Price Limit (DPL) of 9%.	Not applicable.

Further, SEBI has specifically asked whether the ±20% upper limit for Gold and Silver ETFs should be removed, allowing these ETFs to follow the same, more flexible Daily Price Limit rules used for commodity derivative contracts. This could help ETF prices better reflect sharp global movements in gold and silver.

SEBI is also seeking views on whether Commodity ETFs should have a separate pre-open session, since gold and silver trade for 24 hours internationally while ETFs trade only during Indian market hours, making a dedicated pre-open window useful for discovering a fair and accurate opening price.

10. Withdrawal of Calendar Spread Margin Benefit for Single Stock Derivatives on Expiry Day – SEBI Circular dated February 5, 2026

The Securities and Exchange Board of India (SEBI), through its circular dated February 5, 2026, has withdrawn the calendar spread margin benefit for single stock derivatives on the day of expiry for contracts. Earlier, offsetting positions across different expiries (calendar spreads) were allowed margin benefits; however, concerns were raised regarding potential risks on expiry day.

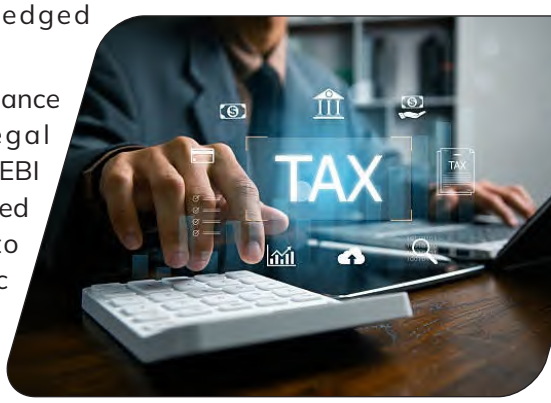
Accordingly, SEBI has aligned the treatment of single stock derivatives with index derivatives by not allowing the calendar spread benefits for expiring contracts on their expiry day. Accordingly, on the expiry day, if one leg of the spread is expiring that day, the margin benefit will not be given. Calendar spread treatment will continue for positions involving other contracts which are not expiring that day. This measure aims to prevent sudden margin spikes after one leg of a spread expires and to provide trading members with sufficient time to arrange additional margins or roll over/close positions.

The circular will come into effect three months from its issuance, and stock exchanges and clearing corporations are directed to implement necessary system changes.

11. Form Creation/Invocation of pledge of securities through depository system

SEBI has issued a circular dated 5th February, 2026, requiring depositories to follow proper legal procedures while creating or invoking a pledge of securities, including giving notice to the pledger and informing both parties when the pledge is invoked.

As per the existing framework for pledging of shares, the Depositories are required to make provisions in their respective bye-laws to provide for the manner of creating and invoking a pledge. Further, according to Indian Contracts Act, 1872 the pawnee are required to give a reasonable notice of sale to the pawnor prior to selling the pledged assets.



To ensure compliance with these legal requirements, SEBI has now directed depositories to include specific undertakings in their Pledge Request Forms. The pledgee must undertake that reasonable notice will be given to the pledger before selling the pledged securities. Both parties must also agree to comply with the Depositories Act, SEBI regulations, and other applicable laws.

Further, depositories are required to maintain a standardized format of the Pledge Request Form. At the time of invocation of pledge, the depository must send an intimation to both the pledger and pledgee confirming that the pledge has been invoked and that the pledgee is recorded as the beneficial owner.

Additionally, depositories have been advised to make necessary amendments to their relevant bye-laws and rules, carry out required system changes, and inform their participants about the provisions of this circular, including publishing the same on their websites.

The provisions of this circular shall come into effect on or before April 6, 2026.

12. Revision of Order-to-Trade Ratio (OTR) framework

After considering the representations received from

stock exchanges, deliberations held with various stakeholders, and recommendations of SEBI's Secondary Market Advisory Committee, SEBI has decided to modify the existing Order-to-Trade Ratio (OTR) framework.

Earlier, orders placed within ±0.75% of the Last Traded Price (LTP) were exempt from OTR penalty. However, this narrow range was not practical for equity options because option premiums are highly volatile.

Now, for equity option contracts, orders placed within ±40% of the option premium (LTP) or ±₹20, whichever is higher, will be exempt from OTR penalty. This provides a wider and more practical range for options trading.

The OTR framework shall continue to apply to orders placed in the cash segment and derivative segment, including orders under liquidity enhancement schemes. However, algorithmic orders placed by Designated Market Makers for market-making activities will be exempt from OTR penalty.

Stock Exchanges are directed to carry out suitable amendments to their respective bye-laws, rules, and regulations, wherever required, to give effect to this decision. They should also ensure that the provisions of this circular are adequately communicated to all market participants, including Trading Members (TMs), and are hosted on their official websites for wider dissemination.

The revised framework shall come into effect from 6 April 2026.

13. *Proposal to enable standing instructions for Systematic Withdrawal Plan (SWP) and Systematic Transfer Plan (STP) transactions in Mutual Fund units held in demat form.*

The SEBI has issued consultation paper to seeks public comments on extending the facility of standing instructions for SWP and STP to Mutual Fund units held in demat form. A SWP allows an investor to give standing instructions to a Mutual Fund or its RTA for periodic redemption of a fixed amount or number of units. A STP enables an investor to transfer investments from one scheme to another scheme of the same AMC through simultaneous redemption and subscription of units. Currently, such facilities are available only for mutual fund units held in Statement of Account mode, while demat holders are required to place separate instructions for each transaction.

To address this, SEBI constituted a working group with representations with various stake holders such as Stock Exchanges, Depositories, and RTAs. Based on the recommendations of the working group, SEBI has proposed a two-phase implementation framework.

Phase I envisages one-time registration of SWP/STP standing instructions through Depositories or Stock Exchange members, with execution routed through Stock Exchange platforms. This phase will support unit-based SWP/STP transactions on fixed dates and requires minimal changes to existing RTA systems, with system enhancements largely at the Depository level.

Phase II proposes a more comprehensive framework wherein standing instructions would be processed through MF-RTAs and Stock Exchanges. This phase would enable amount-based transactions and advanced variants such as appreciation-based withdrawals, swing STPs, and other customised options, thereby aligning demat-held MF units with the flexibility currently available in statement of account mode.

SEBI has invited public comments on the proposed phase-wise implementation and operational framework.

14. *SEBI's issues consultation paper on ease of doing business for REITS and InvITs*

SEBI has released a detailed consultation paper proposing extensive reforms aimed at reducing operational friction and improving the ease of doing business for REITs and InvITs.

The consultation paper consolidates feedback from industry bodies such as the Indian REITs Association (IRA) and the Bharat InvITs Association (BIA), along with recommendations from SEBI's Hybrid Securities Advisory Committee (HYSAC), to present a detailed set of proposals addressing problems in the sector.

15. *Continuing the investment in SPV post end of concession period (for InvITs)*

Currently, InvITs face significant ambiguity in managing SPVs once concession agreements for infrastructure projects conclude. The existing regulations define an SPV as an entity wherein the InvIT or the Holdco holds or propose to hold controlling

interest not less than 51% percent of the share capital or interest and that an SPV must hold at least 90 percent of its assets in infrastructure projects. When the concession period ends, the project ownership automatically reverts to the public concessioning authority, causing the SPV to technically cease meeting SEBI's definition.

Despite of this, these SPVs often continue to have ongoing responsibilities such as income-tax proceedings, GST assessments, pending legal disputes, defect-liability commitments, and project handover formalities. Since InvITs cannot immediately wind up such entities, they are forced into a compliance grey area where SPVs neither qualify within the existing regulatory definition nor can be dissolved without exposing the InvIT to unresolved liabilities.

To address these issues, SEBI has proposed to formally expand the definition of an SPV to include entities whose concession agreements have ended, thereby allowing InvITs to continue holding such SPVs until all their statutory and contractual obligations are fully discharged. This treatment would be temporary and conditional upon the InvIT either exiting the SPV or acquiring a new infrastructure project within a period of one year from –

a) Completion/termination of concession agreement, or

b) Conclusion of all pending claims/litigations, or

c) Completion of defect liability period,

Whichever is later.

16. Expanding the scope of investment in liquid mutual fund schemes by REITs and InvITs (for both REITs and InvITs)

Under the current rules, REITs and InvITs can invest their idle or surplus funds only in liquid mutual fund schemes that fall under Class A-I of SEBI's Potential Risk Class (PRC) matrix, meaning the schemes must have a credit risk value of at least 12.

However, only a small fraction of liquid mutual funds meets this strict parameter, leaving the sector with extremely limited options and high concentration risk. This constraint restricts fund managers' ability to manage liquidity efficiently, particularly during high-volume events such as acquisitions, distributions, or debt refinancing cycles.

In this regard, SEBI intends to broaden permissible liquid mutual fund investments by lowering the minimum credit risk value requirement from 12 to 10. This would allow REITs and InvITs to invest in both Class A-I and Class B-I liquid funds, significantly expanding the availability of low-risk investment options and reducing concentration risk, while still preserving credit quality standards.

17. Alignment of investment conditions for Private InvIT with Public InvIT in relation to investment in Greenfield Projects (For InvITs)

Further, Public InvITs are permitted to invest up to 10 percent of their asset value in pure greenfield projects (those that are entirely under construction). Private InvITs, however, must invest at least 80 percent in "eligible infrastructure projects," which must have achieved significant construction milestones such as 50 percent completion or 50 percent expenditure.

This has prevented private InvITs from participating in early-stage infrastructure development despite their institutional investor base and higher risk appetite. Industry stakeholders have argued that such a restriction places private InvITs at a disadvantage given that they are often better equipped than public InvITs to handle construction-stage risks.

Therefore, SEBI has also proposed to grant private InvITs the ability to invest up to 10 percent of their assets in pure greenfield projects, which is already available to publicly listed InvITs.

18. Expanding the scope of permitted use of fresh borrowings for InvITs where Net Borrowings exceeds 49% of the value of assets (for InvITs)

At present when an InvIT's net borrowings exceed 49 percent of its asset value, additional borrowings are mandated to be used only for the acquisition or development of infrastructure projects.

However, infrastructure assets typically require periodic refinancing because asset concessions often extend 20–35 years while loans mature within 3–12 years. Further, assets particularly in the road, transmission, and renewable sectors, require major maintenance or regulatory upgrades at intervals, and these are often funded through debt.

The absence of clarity on whether InvITs can use new borrowings for refinancing existing loans, undertaking major maintenance, capacity augmentation, or regulatory improvements has constrained operational decisions. Road InvITs face a more severe challenge

because under accounting rules, major maintenance in road projects cannot be capitalized, making debt funding essential to meet these mandatory obligations.

Hence, SEBI aims to clarify and widen the permitted use of borrowings for InvITs that exceed the 49 percent leverage threshold. Under the proposed reforms, InvITs may use fresh borrowings not only for project acquisition or development but also for refinancing existing debt, undertaking mandatory major maintenance especially for road assets and funding capital expenditure or capacity enhancements.

The refinancing permission would apply only where the overall net borrowings do not increase and only the principal amount is refinanced.

19. SEBI proposes flexibility norms for AIFs in relation to winding up and surrender of registration

SEBI has released a consultation paper proposing significant reforms to ease the winding-up process for Alternative Investment Funds (AIFs) whose operations have effectively concluded but remain technically active due to unresolved liabilities or pending expenses.

Currently, Regulation 29(7) requires that within the prescribed liquidation period of one year following expiry of the fund tenure, the assets of the scheme must be liquidated and proceeds distributed to investors after satisfying all liabilities. SEBI has observed that certain AIFs retain a portion of funds for ongoing litigation, tax demands, anticipated liabilities, or essential operational expenses. In this relation, SEBI has highlighted that many AIFs are unable to surrender their registration because of the requirement that they must maintain a NIL bank balance for surrender of registration.

To address this, SEBI proposes allowing AIF schemes to retain funds beyond their permissible fund life, provided they meet specific conditions which include the following:

- Demonstrating receipt of litigation or tax notices,
- Obtaining 75% investor consent for anticipated liabilities, or
- Substantiating operational expenses through proper documentation.

SEBI has also proposed to introduce the concept of "inoperative fund", designed for AIFs that no longer conduct active fund management but remain operational only due to contingent reasons. These inoperative funds would benefit from rationalized compliance norms, including discontinuation of quarterly filings, PPM audits, and CTR reports and would be prohibited from launching new schemes or charging management fees.

SEBI also proposes a maximum retention period of three years for funds held exclusively for operational expenses.

20. IFSCA issues circular on Net Worth certification and Annual Audit requirements for GAPs

IFSCA, vide circular dated February 12, 2026, has prescribed the format of the Net Worth Certificate and checklist applicable for conducting audit of Global Access Providers (GAPs) and other broker dealers. This circular has been issued in reference to the IFSCA Regulations, 2025 and earlier circular dated August 12, 2025, particularly clauses 13 and 14 providing minimum net worth requirements.

IFSCA has provided the format of the net worth certificate and the circular mandates a net worth certificate is to be submitted annually via email to the IFSCA by September 30 each year for the preceding financial year. The certificate shall be duly certified by an independent member of the Institute of Chartered Accountants of India (ICAI).

Further, in accordance with clause 49 of the aforementioned circular, GAPs and Introducing Brokers are required to get annual audit conducted by a peer-reviewed member of ICAI, the Institute of Company Secretaries of India (ICSI), or the Institute of Cost Accountants of India (ICMAI). In this regard, the IFSCA has issued an indicative checklist of documents to rely upon during the conduct of audit.

21. IFSCA opens One-Time window to extend Placement Memorandum validity for IFSC Schemes

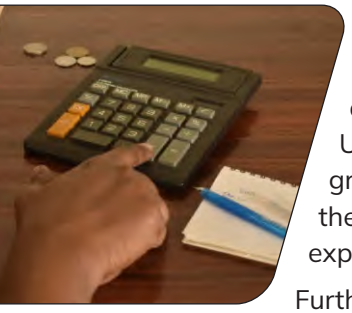
IFSCA, through its circular dated January 27, 2026, has introduced a one-time window to provide flexibility to Fund Management Entities (FMEs) operating in IFSCs to extend the validity of their Placement Memorandum (PPM). Under the existing IFSCA (Fund Management) Regulations, the PPM of Venture Capital Schemes and Restricted Schemes remain valid for 12 months from

the date it is taken on record by the authority. Whereas for an Open-ended Restricted Schemes, it must raise at least USD 1 million to commence investments activities and achieve a minimum corpus of USD 3 million within 12 months.

Upon receiving representations, recognizing that fundraising timelines are often dependent on the market forces. IFSCA has provided additional flexibility through this special window.

Under this one-time window, FMEs whose PPMs have expired or are about to expire within 30 days from the notification and have not commenced investment activities may apply for an extension within three months from the date of the circular. FMEs must re-file the PPM without making any material changes, along with payment of 50% of the applicable filing fee. Upon approval, the authority may grant an extension of six months from the date on which the IFSCA has communicated to the FME that the refiled PPM has been taken on record.

Additionally, open-ended Restricted Schemes that have commenced investment activities but have been unable to achieve the minimum corpus of USD 3 million within the validity period of the PPM, are eligible to apply for the same. Upon approval, the authority may grant an extension from the date the PPM has expired or is set to expire.



Further, schemes availing this facility may seek additional extensions beyond the six-month period in accordance with the applicable provisions of the regulations, subject to payment of the prescribed fees.

22. Unified Registration for multiple capital market Activities under the IFSCA

IFSCA has issued a circular on February 13, 2026 introducing a Unified Registration (Master Key/MKY) framework. Pursuant to recent amendments to the Capital Market Intermediaries (CMI) Regulations, units operating in IFSC are now permitted to obtain a single registration for undertaking multiple capital market activities.

The Master Key facility is available to a wide range of capital market intermediaries permitted under the CMI Regulations, including Broker Dealers, Clearing Members, Credit Rating Agencies, Custodians, Debenture Trustees, Depository Participants, Distributors, ESG Ratings and Data Products Providers, Investment Advisers, Investment Bankers, and Research Entities.

Applications must be submitted through the Single Window IT System (SWIT) portal of IFSCA, with one consolidated application covering the selected activities. Upon approval, IFSCA will issue a certificate of registration titled “Capital Market Intermediary - [list of permitted activities]” under the CMI Regulations. However, the circular clarifies that fees remain activity specific and upon grant of registration, the applicant shall pay registration, annual and other recurring fees as per applicable deadlines for each activity separately.

The circular comes into effect from February 16, 2026.

23. IFSCA amends the Fund Management regulations

IFSCA has brought in amendments to the Fund Management regulations via the notification dated 27th January 2026. The amendments revise the eligibility criteria for Key Managerial Personnel (KMP) and streamline the operational provisions for corpus requirements, placement memorandum validity along with conditions for winding up of a scheme.

Sr. No.	Topic / Area	Current Provisions	Amendment
01	Eligibility criteria for KMPs	• In addition to the prescribed educational qualifications, an individual was required to have 5 years of experience in activities which were specifically specified in the regulations. • Consultancy experience in areas related to fund management, such as deal due diligence or transaction advisory, was recognized but subject to a cap of two years, with at least three years required in core market roles.	• a more flexible standard has been introduced requiring at least five years of experience in activities relating to securities markets or financial products within an “eligible institution.” Eligible institution has been defined to include market infrastructure institutions, capital market intermediaries, financial sector regulators, fund management entities, banks, finance companies, insurance companies, and insurance intermediaries operating in IFSCs, India, or equivalent foreign jurisdictions.

Sr. No.	Topic / Area	Current Provisions	Amendment
01	Eligibility criteria for KMPs	• For compliance officers, individuals holding professional qualifications from the Institute of Chartered Accountants of India, Institute of Company Secretaries of India, or Institute of Cost Accountants of India (or equivalent foreign bodies) could qualify with three years of experience in compliance or risk management within a listed company or regulated financial entity.	• For compliance officers, individuals possessing a recognized professional qualification may qualify with a minimum of three years of experience. Compliance officers with two years of post-qualification experience in an eligible institution located in an International Financial Services Centre (IFSC), India, or in a foreign jurisdiction, together with the prescribed certifications, may qualify for specific KMP positions. • Additionally, for Principal officers, Additional KMPs and KMP for fund management three years of such post-qualification experience has been prescribed.
02	Placement Memorandum	The placement memorandum for launching a Venture Capital scheme remained valid for twelve months from the date it was taken on record. During this period, the Fund Management Entity (FME) was required to achieve the minimum corpus and declare the first close of the scheme. If the FME failed to meet the minimum corpus requirement within the prescribed timeline, it was permitted a one-time extension of six months, subject to payment of 50% of the fee applicable for filing a fresh scheme.	An FME that fails to achieve the minimum corpus within the validity period may now extend the placement memorandum multiple times, with each extension lasting six months from the expiry of the existing validity period. The extension must be sought while the placement memorandum remains valid and is subject to a graded fee structure i.e. • 25% of the fresh filing fee for the first extension • and 50% for each subsequent extension.
	Winding up of a scheme	A scheme could be wound up only in two specified circumstances: • upon expiry of the scheme's tenure as stated in the placement memorandum or offer document, • or where investors holding at least 75% of the value of investments resolved to wind up the scheme	The amendment expands the circumstances in which a scheme may be wound up by introducing two additional grounds. • A scheme may now be wound up where funds have been raised but the minimum corpus is not achieved within the validity or extended validity of the placement memorandum or offer document and the FME does not extend such validity through the prescribed process. • Further, a scheme may also be wound up where no investors have been onboarded and no funds have been collected, and the FME voluntarily decides to close the scheme.
	Appointment of custodian	Schemes that were required to appoint a custodian in an IFSC but had an existing arrangement with a custodian located outside the IFSC were required to transition to an IFSC-based custodian within 12 months from the date of notification of the regulations.	Schemes are now permitted up to 24 months from the commencement of these amended regulations to appoint a custodian in IFSC. During this interim period, the Fund Management Entity (FME) may appoint an independent custodian located in India or any foreign jurisdiction, provided such custodian is regulated by the relevant financial sector regulator and arrangements are in place to furnish information to the Authority as required.

24 RBI has released a draft circular detailing the reporting framework applicable to Authorized Dealer Category-I Banks

RBI has issued a draft circular prescribing revised reporting instructions for Authorized Dealer Category-I (AD Cat-I) banks. Earlier, the Authorized Dealer Category-I ("AD Cat-I") banks were required to report all the over-the-counter ("OTC") foreign exchange derivative contracts and foreign currency interest rate derivative contracts, undertaken by them directly or through their overseas entities to the Trade Repository ("TR") of Clearing Corporation of India Ltd. ("CCIL").

RBI has now decided that AD Cat-I banks shall now report all OTC foreign exchange derivative contracts involving the Indian Rupee (INR) undertaken globally by their related parties to the TR of CCIL. OTC derivatives refer to all derivatives that are not traded on stock exchanges, including those traded on electronic trading platforms ("ETPs").

The term "related party" shall have the same meaning as defined under Indian Accounting Standard (Ind AS) 24, International Accounting Standard (IAS) 24, or any other equivalent accounting standard provided the term 'related party' shall exclude associates as specified in Ind AS 24 or IAS 24 or any other equivalent accounting standard.

An AD Cat-I shall ensure that all covered transactions undertaken by its offshore related parties are reported, however they are not required to report transactions undertaken in terms of the back-to-back arrangement or transactions where the notional of the contract does not exceed USD 1 million or equivalent.

To ensure gradual compliance, RBI has prescribed phased reporting targets. AD Cat-I banks shall report at least 70% of the total notional value of all INR-linked foreign exchange derivative contracts undertaken by their related parties within 12 months, 80% within 18 months, and 90% within 24 months. An AD Cat-I bank shall report all elements of covered transactions which are relevant to provide meaningful information about the transaction.

Transaction shall be reported preferably on the date of transaction, but in any case, within two working days from the date of transaction.

25. Foreign Exchange Management (Export and Import of Goods and Services) Regulations, 2026

Reserve Bank of India, vide Notification No. FEMA 23(R)/2026-RB dated January 13, 2026, has issued the Foreign Exchange Management (Export and Import of Goods and Services) Regulations, 2026 under the Foreign Exchange Management Act, 1999.

These Regulations supersede the Foreign Exchange Management (Export and Import of Goods and Services) Regulations, 2015 except in respect of things done or omitted to be done before such supersession. This regulation shall come into force from October 01, 2026.

VI. COMPLIANCE CALENDAR FOR MARCH 2026

A. Income tax

Sr. No.	Due Dates	Concerned (reporting) Period	Compliance Detail	Applicable to
01	7th March	February 2026	TDS / TCS Payment	All Assessee
02	15th March	Quarter 4 (Jan-Mar 2026)	Advance Tax Payment	All Assessee
03	17th March	January 2026	Issue of TDS certificate for TDS deducted under Section 194-IA of the Act	All Assessee
04	17th March	January 2026	Issue of TDS certificate for TDS deducted under Section 194M of the Act	Individual / HUF
05	17th March	January 2026	Issue of TDS certificate for TDS deducted under Section 194S of the Act on VDA	Exchanges
06	30th March	February 2026	Deposit of TDS on payment under Section 194-IA of the Act.	All Assessee
07	30th March	February 2026	Deposit of TDS on payment under Section 194-IB of the Act.	All Assessee
08	30th March	February 2026	Deposit of TDS deducted under Section 194M of the Act	Individual / HUF

Sr. No.	Due Dates	Concerned (reporting) Period	Compliance Detail	Applicable to
09	30th March	February 2026	Deposit of TDS deducted under Section 194S of the Act on transfer of Virtual Digital Asset	Exchanges
10	31st March	FY 2025-26	Last date for Advance Tax Payment (Including interest under Section 234C of the Act)	All Assessee
11	31st March	AY 2021-22	Updated ITR 1 to 7 with additional 70% of aggregate tax and interest payable	All Assessee
12	31st March	AY 2022-23	Updated ITR 1 to 7 with additional 60% of aggregate tax and interest payable	All Assessee
13	31st March	AY 2023-24	Updated ITR 1 to 7 with additional 50% of aggregate tax and interest payable	All Assessee
14	31st March	AY 2024-25	Updated ITR 1 to 7 with additional 25% of aggregate tax and interest payable	All Assessee
15	31st March	FY 2024-25	Uploading of Statement of foreign income offered to tax and tax deducted or paid on such income	All Assessee

B. Goods and Service Tax

Sr. No.	Due Dates	Concerned (reporting) Period	Compliance Detail	Applicable to
01	10th March	February 2026	GSTR – 7 (TDS)	Person required to deduct TDS under GST
02	10th March	February 2026	GSTR – 8 (TCS)	Person required to collect TCS under GST
03	11th March	February 2026	GSTR 1	a) Taxable persons having annual turnover > INR 5 crores in FY 2024-25 b) Taxable persons having annual turnover ≤ INR 5 crores in FY 2024-25 and not opted for Quarterly Return Monthly Payment (QRMP) Scheme
04	13th March	February 2026	GSTR – 1 (IFF)- QRMP	Aggregate Turnover is up to INR 5 crores
05	13th March	February 2026	GSTR – 6 (ISD)	Person registered as ISD
06	20th March	February 2026	GSTR – 3B	a) Taxable persons having annual turnover > INR 5 crores in FY 2024-25 b) Taxable persons having annual turnover ≤ INR 5 crores in FY 2024-25 and not opted for QRMP scheme
07	13th March	February 2026	GSTR - 5 (NRTP)	Non-resident taxable person (NRTP)
08	20th March	February 2026	GSTR - 5A (OIDAR)	OIDAR services provider
09	25th March	February 2026	GSTR – 3B - QRMP scheme- Monthly payment	Aggregate Turnover is up to INR 5 crores

C. FEMA Compliance

Sr. No.	Due Dates	Particulars	Applicable to
01	7th March	ECB 2 Return (External Commercial Borrowing)	All Indian Borrowers who have non-resident lenders

GLOSSARY

ABBREVIATION	FULL FORM
AAAR	Appellate Authority for Advance Ruling
AAR	Authority for Advance Rulings
Act	Income-tax Act, 1961
AE	Associated Enterprise
AGR	Adjusted Gross Revenue
AI	Accredited Investors
AIF	Alternative Investment Fund
ALP	Arm's Length Rate
AMFI	Association of Mutual Funds in India
AML	Anti-Money Laundering
AO	Assessing Officer
APMC	Agricultural Produce Market Committee
AY	Assessment Year
BER	Base Expense Ratio
BFAR	Board for Advance Ruling
BMA	Black Money Act
BSDA	Basic Services Demat Account
CASS	Computer-Assisted Scrutiny Selection
CBDT	Central Board of Direct Taxes
CBIC	Central Board of Indirect Tax and Customs
CCD	Compulsorily Convertible Debentures
CCIT	Chief Commissioner of Income Tax
CDSCO	Central Drugs Standard Control Organization
CESTAT	Customs, Excise and Service Tax Appellate Tribunal
CFT	Combating of Financing Terrorism
CGAS	Capital Gains Account Scheme
CGST	Central Goods & Services Tax
CIT	Commissioner of Income-tax
CIT(Appeals) / CIT(A)	Commissioner of Income-tax (Appeals)
CMI	Capital Market Intermediaries
CPC	Centralized Processing Centre
CUP	Comparable Uncontrolled Price
DAPE	Dependent Agent Permanent Establishment
DCIT	Deputy Commissioner of Income Tax
DCIT	Deputy Commissioner of Income Tax
DDIT	Deputy Director of Income Tax
DDT	Dividend Distribution Tax

GLOSSARY

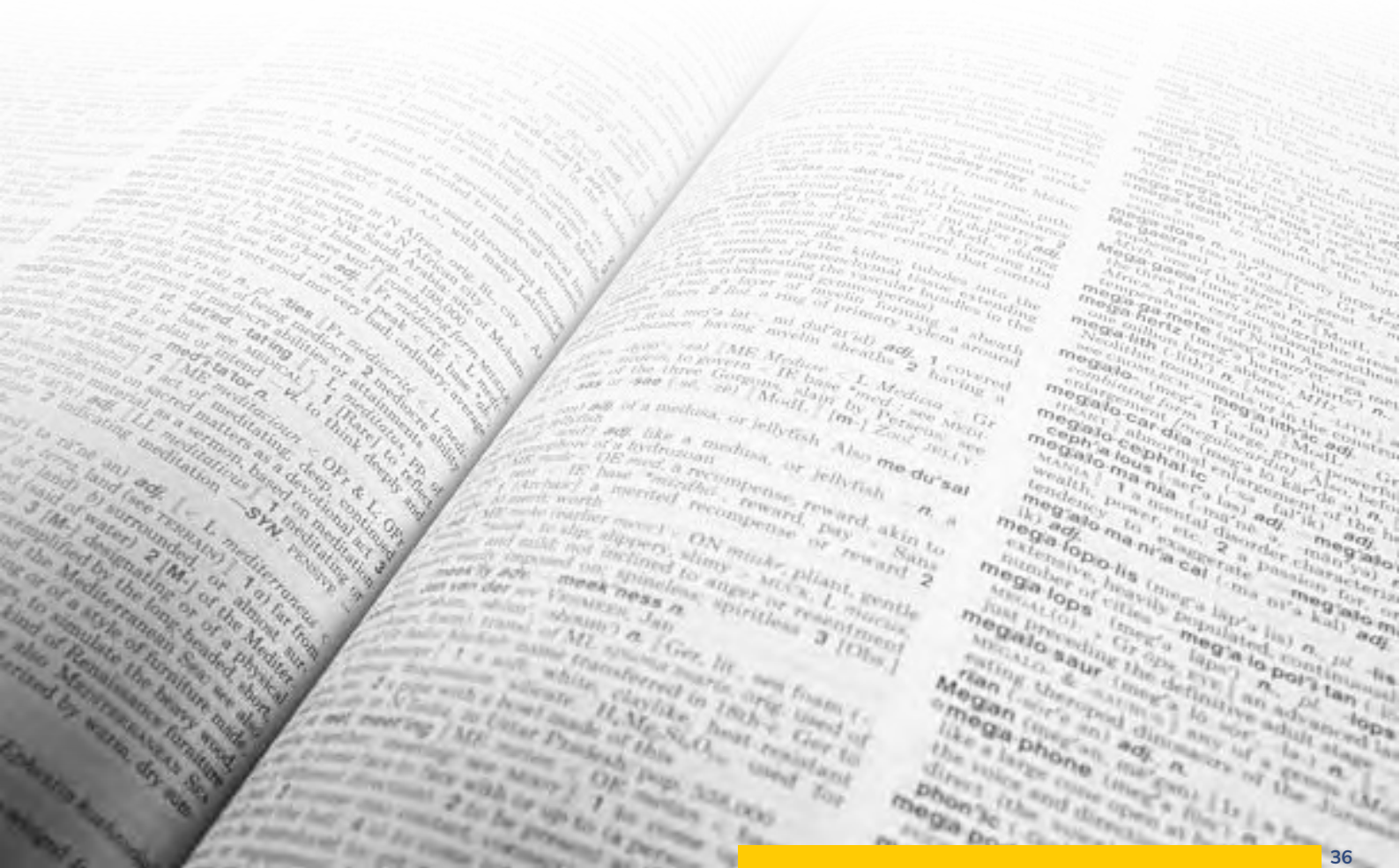
ABBREVIATION	FULL FORM
DGAP	Director General of Anti-Profiteering
DGIT	Directorate General of Income Tax
DIN	Document Indentification Number
DOT	Department of Telecommunications
DRP	Dispute Resolution Panel
DT	Debenture Trustees
DTAA	Double Taxation Avoidance Agreement
DTVSV Act, 2020	Direct Tax Vivad Se Vishwas Act, 2020
DTVSV Act, 2024	Direct Tax Vivad Se Vishwas Act, 2024
ECB	External Commercial Borrowings
ETF	Exchange-Traded Fund
EU	European Union
FAR	Functions, Asset and Risk Analysis
FPI	Foreign Portfolio Investment
FTC	Foreign Tax Credit
FTS	Fees Technical Services
FY	Financial Year
GAAR	General Anti-Avoidance Rules
GAP	Global Access Providers
GP	Gross Profit
GST	Goods & Service Tax
GSTAT	Goods and Services Tax Appellate Tribunal
HC	High Court
Hon'ble	Honourable
HSN	Harmonized System of Nomenclature
HUF	Hindu Undivided Family
IB	Introducing Brokers
ICC	International Cricket Council
IFOS	Income from other Sources
IFSC	International Financial Service Centre
IFSCA	International Financial Services Centre's Authority
IIBX	India International Bullion Exchange
IRDAI	Insurance Regulatory and Development Authority of India
ITAT	Income Tax Appellate Tribunal
ITC	Input Tax Credit
ITR	Income Tax Return
JAO	Jurisdictional Assessing Officer

GLOSSARY

ABBREVIATION	FULL FORM
JDA	Joint Development Agreement
KYC	Know your customer
LF	License Fees
LIBOR	London Interbank Offered Rate
LOB	Limitation of Benefit
LODR	Listing Obligations and Disclosure Requirements
LVF	Large Value Fund
MII	Market Infrastructure Institution
MTC	Model Tax Convention
NBFC	Non-Banking Financial Company
NFAC	National Faceless Assessment Centre
NISM	National Institute of Securities Markets
NRI	Non- Resident Indians
OECD	Organisation for Economic Co-operation and Development
OGE	Order Giving Effect
PAN	Permanent Account Number
PCCIT	Principal Commissioner of Income Tax
PCIT	Principal Commissioner of Income Tax
PE	Permanent Establishment
PLR	Prime Lending Rate
RAIN	Registrar Association of India
RBI	Reserve Bank of India
RBOE	Risk-Based Operational Excellence
RE	Regulated Entities
REIT	Real Estate Investment Trust
RFRC	Risk-Focused Regulatory Compliance
ROI	Return of Income
Rules	Income-tax Rules, 1962
SC	Supreme Court
SCN	Show Cause Notice
SDF	Sugar Development Fund
SEBI	Securities and Exchange Board of India
SEP	Significant Economic Presence
SEZ	Special Economic Zone
SGD	Singaporean Dollars
SGST	State Goods and Services Tax
SIF	Specialised Investment Fund

GLOSSARY

ABBREVIATION	FULL FORM
SLP	Special Leave Petition
SMP	Social Media Platform
SUC	Spectrum Usage Charges
SWAGAT-FI	Single Window Automatic and Generalised Access for Trusted Foreign Investor
TDS	Tax Deducted at Source
TER	Total Expense Ratio
TNMM	Transactional Net Margin Method
TP	Transfer pricing
TPO	Transfer Pricing Officer
TRC	Tax Residency Certificate
VWAP	Volume Weighted Average Price
XML	eXtensible Markup Language
ZCZP	Zero Coupon Zero Principal



BHUTA SHAH & CO LLP
CHARTERED ACCOUNTANTS

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Bhuta Shah & Co LLP (BSC) is a dynamic professional Chartered Accountants firm with a distinctive blend of skill sets, experience and expertise. Established in the year 1986, we operate from our Head Office in Nariman Point, Mumbai while having 6 offices across India in Mumbai, Pune, Ahmedabad and New Delhi.

We offer our clients a wide range of services including Audit & Assurance, Direct Taxation, Indirect Taxation, Transaction Advisory, Corporate Finance, Corporate Advisory, Risk Advisory, Cyber Security and Resolution & Insolvency Advisory.

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