

**IN THE INCOME TAX APPELLATE TRIBUNAL  
“D” BENCH, AHMEDABAD**

**BEFORE DR. BRR KUMAR, VICE PRESIDENT &  
SHRI SIDDHARTHA NAUTIYAL, JUDICIAL MEMBER**

I.T.A. No.2215/Ahd/2025  
(Assessment Year: 2013-14)

Assistant Commissioner of Income Tax, Circle-1(1)(1), Vadodara	Vs.	M/s. Schaeffler India Ltd., Opp. ABB, P.O. Maneja, Vadodara-390013
<b>[PAN No.AAACL6817D]</b>		
<b>(Appellant)</b>	..	<b>(Respondent)</b>

<b>Appellant by :</b>	Ms. Amrin Pathan, AR
<b>Respondent by:</b>	Shri Sher Singh, CIT-DR

<b>Date of Hearing</b>	06.05.2026
<b>Date of Pronouncement</b>	26.05.2026

**ORDER**

**PER SIDDHARTHA NAUTIYAL - JUDICIAL MEMBER:**

This appeal has been filed by the Revenue against the order passed by the Ld. Commissioner of Income Tax (Appeals)-13, (in short “Ld. CIT(A)”), Ahmedabad vide order dated 22.09.2025 passed for A.Y. 2013-14.

2. The Revenue has raised the following grounds of appeal:

“(i) *On the facts and circumstances of the case and in law, the Ld.CIT(A) erred in law and facts in not upholding the downward adjustment of Rs. 5,87,74,700/- proposed by the TPO on account of Management service fees*

(ii) *(ii) On the facts and circumstances of the case and in law, the Ld.CIT(A) erred in law and facts in not appreciating the findings of the TPO that the service fee has to be benchmarked separately by analyzing each of the actual services received by the assessee also the assessee company has separate team for seeing the HR issues, Administration, Finance, Marketing, Sales, Legal and Product development, technical planning.*

(iii) *(iii) On the facts and circumstances of the case and in law, the Ld.CIT(A) erred in law and facts in not considering the facts of the case that the assessee-company has*

*not brought on record any cogent, relevant and reliable evidence to prove how and when these services were requisitioned from the AE were submitted by the assessee, whether the AEs have the capacity to provide such services to Indian AE or the details of the cost incurred by the AE for the provision of each type of service purported to have been received by the assessee.*

*(iv) On the facts and circumstances of the case and in law, the Ld. CIT(A) erred in law and fact in not considering the facts of the case that TNMM method selected by the assessee should be rejected and CUP method should be Most Appropriate Method to determine the arm's length price separately.*

*(v) On the facts and circumstances of the case and in law, the Ld. CIT(A) erred in law and facts in deleting the addition of Rs. 5,71,40,169/- proposed by the TPO on account of benchmarking of Manufacturing Segment without considering the material contained in the order of the Transfer Pricing Officer?*

*(vi) The appellant craves leaves to add, modify, amend or alter any grounds of appeal at the time of, or before, the hearing of appeal.”*

3. The brief facts of the case are that the assessee company filed its original return of income for A.Y. 2013-14 declaring total income of Rs.7,92,16,390/- which was subsequently revised to Rs.6,67,94,270/-. The case was selected for scrutiny assessment and during the course of assessment proceedings, the Assessing Officer examined the international transactions entered into by the assessee with its Associated Enterprises. Since the assessee had undertaken several international transactions, the matter was referred to the Transfer Pricing Officer under section 92CA of the Act for determination of Arm's Length Price of such transactions.

4. During the transfer pricing proceedings, the TPO primarily examined two segments namely the manufacturing segment and the payment of management service fees made by the assessee to its Associated Enterprises. The assessee had benchmarked its manufacturing segment under the Transactional Net Margin Method (TNMM) and had aggregated the payment of management service fees along with manufacturing transactions by

contending that all the transactions were closely linked and formed part of integrated business operations. The assessee submitted that the management support services were availed by the assessee from Schaeffler Holding (China) Co. Ltd. for carrying on its business operations efficiently as the assessee did not possess sufficient in-house expertise in several specialized business functions. The assessee furnished service level agreements, invoices, presentations, meeting records, training reports, allocation workings and cost verification reports to substantiate that actual services had been received from the Associated Enterprise.

5. However, the TPO rejected the aggregation approach adopted by the assessee and held that the transaction relating to management service fees was required to be benchmarked separately. The TPO further rejected TNMM as the Most Appropriate Method for benchmarking management service fees and instead applied Comparable Uncontrolled Price (CUP) method. According to the TPO, the services allegedly rendered by the Associated Enterprise were in the nature of shareholder activities or stewardship services which did not require separate compensation. The TPO further observed that the assessee had not demonstrated any specific commercial need for such services and that many of the activities were merely duplicative in nature because the assessee already had its own management structure and experienced personnel. The TPO also doubted whether any tangible benefit had actually accrued to the assessee from such services. On these grounds, the TPO determined the Arm's Length Price of management service fees at Nil and proposed transfer pricing adjustment of Rs.5,87,74,700/-.

6. Apart from the management fee adjustment, the TPO also made adjustment of Rs.5,71,40,169/- in the manufacturing segment. While determining such adjustment, the TPO recomputed the operating margin of the assessee by altering the Profit Level Indicator, modifying the operating expenditure and rejecting certain comparable companies selected by the assessee. The TPO excluded companies such as Clutch Auto Ltd., FCC India Manufacturing Pvt. Ltd., Rambal Ltd. and Rane Engine Valve Ltd. from the comparable set and introduced other comparables viz. CM Smith & Sons and Valeo Friction Materials India Pvt. Ltd. The TPO further computed the assessee's operating margin at 4.52% instead of 5.80% shown by the assessee and computed the average margin of comparables at 9.79%, thereby proposing upward transfer pricing adjustment in manufacturing segment.

7. Based upon the transfer pricing order passed under section 92CA(3), the Assessing Officer completed the assessment under section 143(3) read with section 144C and assessed total income at Rs.18,27,09,138/- as against returned income of Rs.6,67,94,270/-. The Assessing Officer incorporated the transfer pricing adjustments recommended by the TPO and also initiated penalty proceedings under section 271(1)(c) of the Act.

8. Aggrieved by the assessment order, the assessee preferred appeal before the CIT(Appeals). During the appellate proceedings, the assessee filed written submissions challenging both the transfer pricing adjustments relating to management service fees as well as manufacturing segment. The assessee submitted that the TPO erred in treating the management support services as shareholder or stewardship activities. The assessee submitted that the Associated Enterprise was functioning as a regional centre of excellence and

knowledge hub for the Asia Pacific region and was rendering actual business support services relating to business development, product strategy, procurement, supply chain management, finance, human resources, information technology and operational management. The assessee submitted that the services were rendered on regular basis and the assessee furnished documentary evidences viz. invoices, employee-wise time sheets, presentations, e-mails, workshop reports and meeting records to substantiate actual receipt of services. The assessee further submitted before the CIT(A) that the payments were made strictly on cost plus basis and the Associated Enterprise had charged only actual cost incurred along with markup of 5%, which itself was lower than arm's length margin determined by independent benchmarking studies. The assessee submitted that the TPO had incorrectly determined Arm's Length Price at Nil without applying any prescribed method under section 92C of the Act and such approach was contrary to settled transfer pricing jurisprudence. The assessee relied upon decisions rendered in the case of group concern INA Bearings India Pvt. Ltd., which had subsequently merged with Schaeffler India Ltd., wherein identical issue relating to payment of management support fees to Schaeffler Holding (China) Co. Ltd. had already been decided in favour of the assessee by the Pune Bench of the Tribunal.

9. The CIT(A) called for remand report from the TPO and thereafter examined the issue. The CIT(A) noted that identical issue had already been adjudicated in favour of group entities of the assessee including INA Bearings India Pvt. Ltd. and Schaeffler India Ltd. for earlier assessment years. The CIT(A) reproduced findings of the Pune Tribunal wherein the Tribunal had

analysed the concept of stewardship services and held that the services rendered by Schaeffler Holding (China) Co. Ltd. were not shareholder activities but actual business support services producing commercial benefit to the recipient company. The Tribunal had observed that stewardship activity means an activity undertaken merely to protect shareholder's investment and not an activity which directly affects or benefits the recipient company's business operations. The Tribunal further held that where services relating to business development, finance, procurement, supply chain, operations and human resources are actually rendered, such services cannot be categorized as shareholder or stewardship activities.

10. The CIT(A) further noted that the Tribunal in group company's case had categorically held that the TPO exceeded his jurisdiction by determining Arm's Length Price at Nil without applying any recognized method prescribed under section 92C of the Act. The Tribunal had also held that once actual rendition of services is established, the TPO cannot question the commercial expediency or business necessity of such services. The Tribunal had also observed that the payment mechanism adopted by Schaeffler China based on actual cost plus 5% markup itself satisfied Cost Plus Method and the same was within arm's length range.

11. After considering the detailed submissions and judicial precedents, the CIT(A) accepted the contentions of the assessee and held that the management support services received from Schaeffler Holding (China) Co. Ltd. were genuine business services and not stewardship or shareholder activities. The CIT(A) held that the assessee had furnished documentary evidences viz. invoices, employee-wise service details, time allocation,

workshops, meeting minutes, presentations and service agreements clearly substantiating actual rendition of services. The CIT(A) further held that the TPO was not justified in determining Arm's Length Price at Nil without applying any prescribed transfer pricing methodology. Following the decisions rendered in assessee's own group cases, the CIT(A) held that the payment of management service fees was at Arm's Length Price and directed deletion of adjustment of Rs.5,87,74,700/-.

12. The Ld. CIT(A), while adjudicating Grounds relating to transfer pricing adjustment of Rs.5,71,40,169/- in the manufacturing segment, carried out a examination of the approach adopted by the TPO both in recomputing the assessee's operating margin as well as in modifying the comparable set. The assessee had benchmarked its manufacturing transactions by applying TNMM as the Most Appropriate Method and had shown operating margin of 5.80% after excluding abnormal and extraordinary cost of goods sold amounting to Rs.5.35 crore relating to supply of YC5 clutch parts to Maruti Suzuki. The assessee submitted that due to delay in commencement of localization/manufacturing facility, the assessee was compelled to import YC5 parts from its Associated Enterprise at substantially higher prices in order to honour commitments made to Maruti Suzuki and to avoid business losses and reputational damage. The assessee submitted that such extraordinary costs arose due to exceptional business circumstances involving a non-AE customer and therefore required normalization while benchmarking the manufacturing segment. However, the TPO rejected the assessee's claim for abnormal cost adjustment, recomputed the operating margin at 4.52% and also rejected several comparables selected by the

assessee while introducing a fresh set of comparables, thereby arriving at average comparable margin of 9.79% and consequently proposing transfer pricing adjustment of Rs.5,71,40,169/-.

13. During appellate proceedings, the CIT(A) examined the transfer pricing study, documentary evidences, remand report of the TPO and revised comparable analysis in great detail. The CIT(A) noted that the assessee had substantiated the extraordinary business circumstances by furnishing project reports, localization plans, presentations and supporting records demonstrating that the increased cost was commercially driven and had no relation to manipulation of international transactions. The CIT(Appeals) further observed that the TPO had selected comparables without proper search process or detailed functional analysis and that even the computation of margins of selected comparables suffered from factual and computational errors. During remand proceedings, the TPO himself revised the average comparable margin from 9.79% to 6.74%. Thereafter, after considering the assessee's rejoinder and correcting errors in computation of comparable margins, in particular in case of Hindustan Composites Ltd., the CIT(A) found that the correct average operating margin of comparable companies worked out to only 3.64%. Since the assessee's operating margin even on the TPO's revised basis remained at 4.52%, which was higher than the corrected comparable margin of 3.64%, the CIT(A) held that the manufacturing transactions were already at arm's length and therefore no transfer pricing adjustment survived. Accordingly, the entire addition of Rs.5,71,40,169/- made by the TPO in the manufacturing segment was deleted.

14. The Department is in appeal before us against the order passed by CIT(Appeals) allowing the appeal of the assessee.

15. We have heard the rival contentions and perused the material on record. The grievance of the Revenue in the present appeal is against the action of the Ld. CIT(A) in deleting the transfer pricing adjustment of Rs.5,87,74,700/- made on account of management support service fees and further deleting the transfer pricing adjustment of Rs.5,71,40,169/- made in the manufacturing segment.

16. Upon careful consideration of the facts available on record, we find no infirmity in the well-reasoned order passed by the Ld. CIT(A).

17. So far as the adjustment relating to management support services is concerned, we find that the assessee had entered into arrangement with Schaeffler Holding (China) Co. Ltd. for availing specialized management and business support services relating to procurement, supply chain management, finance, operational management, human resources, product strategy and business development. The assessee had furnished documentary evidences including service agreements, invoices, employee-wise allocation details, presentations, workshop reports, e-mails, time sheets and cost allocation workings substantiating actual rendition of services by the Associated Enterprise. However, the TPO overlooked the entire evidentiary material and proceeded to determine the Arm's Length Price of such services at Nil by characterizing them as shareholder/stewardship activities.

18. We find that identical issue had arisen in assessee's own group concern namely INA Bearings India Pvt. Ltd. (now merged with Schaeffler India Ltd.) in earlier years. The Pune Bench of the Tribunal in the case of INA Bearings India Pvt. Ltd. v. DCIT in ITA No.150/PUN/2017 for A.Y. 2011-12 vide order dated 24.06.2019 had examined identical agreement with Schaeffler Holding (China) Co. Ltd. and after detailed analysis held as under:-

*“It is ergo patent that such services are in the nature of normal business services performed with a view to enable the assessee to carry out its business operations producing effect on the assessee company. In our opinion, these do not qualify as stewardship activities.”*

19. The Tribunal further held:-

*“The payment to Schaeffler Holding (China) Co. Ltd. at the actual costs incurred in providing such services plus 5% mark-up is at ALP, which does not require any transfer pricing addition.”*

20. We further find that the Ahmedabad Bench of the Tribunal in the case of Schaeffler India Ltd. v. ACIT in ITA Nos.133 to 137/Ahd/2022 and ITA Nos.147 to 150/Ahd/2022 vide order dated 12.01.2024 has also followed the aforesaid Pune Bench decision and upheld deletion of identical transfer pricing adjustment relating to management support services received from the same Associated Enterprise. The Tribunal in the aforesaid decisions categorically held that once actual rendition of services is established through documentary evidences, the TPO cannot determine ALP at Nil merely on subjective perception regarding commercial expediency of the expenditure. The Tribunal further observed that the TPO cannot step into the shoes of businessman and question the necessity of business expenditure.

21. In the present case also, we find that the Ld. CIT(A) has recorded categorical finding that the assessee furnished exhaustive documentary evidences substantiating actual receipt of management support services. The Revenue has not brought any material before us to controvert these factual findings recorded by the first appellate authority. We further find that the TPO has determined ALP at Nil without applying any recognized transfer pricing methodology prescribed under section 92C of the Act, which itself is contrary to settled legal position laid down in the aforesaid judicial precedents. Accordingly, respectfully following the decisions rendered in assessee's own group cases, we uphold the order of the Ld. CIT(A) deleting the adjustment of Rs.5,87,74,700/- relating to management support service fees.

22. Coming to the transfer pricing adjustment of Rs.5,71,40,169/- made in the manufacturing segment, we find that the assessee benchmarked its manufacturing transactions by applying TNMM and had shown operating margin at 5.80% after excluding extraordinary and abnormal cost of goods sold relating to YC5 clutch parts supplied to Maruti Suzuki. The assessee submitted before the lower authorities that due to delay in commencement of localization facility, it had to import such clutch parts from its Associated Enterprise at substantially higher prices in order to fulfil commitments made to Maruti Suzuki and to avoid business losses and reputational damage. The assessee further demonstrated that such extraordinary costs arose on account of exceptional business circumstances involving non-AE dealings and therefore required normalization while determining operating margins under TNMM.

23. We find that the TPO rejected the abnormal cost adjustment and further altered the comparable set by rejecting several comparables selected by the assessee and introducing fresh comparables, thereby computing average comparable margin at 9.79%. However, during remand proceedings, the TPO himself revised the comparable margin from 9.79% to 6.74%. Thereafter, upon detailed examination of revised workings and rejoinder filed by the assessee, the Ld. CIT(A) noticed computational errors in margins of comparables and therefore arrived at corrected average comparable margin of 3.64%.

24. Thus, even on the basis of TPO's own revised computation, the assessee's operating margin at 4.52% remained higher than the corrected comparable margin of 3.64%. The Ld. CIT(A) therefore rightly held that the manufacturing transactions of the assessee were already at arm's length and consequently no transfer pricing adjustment survived. We find that the findings recorded by the Ld. CIT(A) are based upon detailed appreciation of remand report, revised comparable analysis and documentary evidences placed on record. The Revenue has failed to point out any factual or legal infirmity in such findings.

25. At this stage, it would also be relevant to note that under TNMM, transfer pricing adjustment can survive only where tested party margin falls below arm's length margin of comparables. Once the assessee's margin is found to be higher than the corrected comparable margin, no further adjustment is permissible under Chapter X of the Act.

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26. In view of the aforesaid facts and respectfully following the binding decisions rendered in assessee's own group cases, we find no infirmity in the order passed by the Ld. CIT(A) deleting the transfer pricing adjustments both in respect of management support services as well as manufacturing segment. Accordingly, all the grounds raised by the Revenue are dismissed.

27. In the result, the appeal of the Revenue is dismissed.

<b>This Order pronounced in Open Court on</b>	<b>26/05/2026</b>
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Sd/-  
**(DR. BRR KUMAR)**  
**VICE PRESIDENT**

Ahmedabad; Dated 26/05/2026

TANMAY, Sr. PS

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1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / Concerned CIT
4. आयकर आयुक्त(अपील) / The CIT(A)-
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, अहमदाबाद / DR, ITAT, Ahmedabad
6. गार्ड फाईल / Guard file.

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आयकर अपीलीय अधिकरण, अहमदाबाद / ITAT, Ahmedabad