IN THE HIGH COURT OF MADHYA PRADESH AT JABALPUR

BEFORE

HON'BLE SHRI JUSTICE ALPESH Y. KOGJE,

CHIEF JUSTICE

&

HON'BLE SHRI JUSTICE VIVEK JAIN

ON THE 4th OF NOVEMBER, 2026

WRIT PETITION No. 20309 of 2026

CNR No.: MPHC010386132026

M/S MAA NARMADA ALUMINIUMEXTRUSION PRIVATE LIMITED

Versus

THE STATE OF MADHYA PRADESH AND OTHERS

Appearance:

Shri Nitin Agrawal - Advocate for the petitioner.

Shri Rajvardhan Dutt Pararha - Government Advocate for the respondents/State.

ORDER

Per. Hon'ble Shri Justice Alpesh Y. Kogje, Chief Justice

The present writ petition assails the arbitrary, illegal and arbitrary exercise of power by the Respondents in blocking the Petitioner's Electronic Credit Ledger (ECL) to the extent of Rs. 23,78,030/- under Rule 86A of the CGST/MPGST Rules, without recording valid reasons to believe and without considering the material available on record or affording the Petitioner any opportunity of hearing.

2. It is submitted that the Petitioner duly cooperated with the departmental proceedings and, pursuant to summons issued under Section 70

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of the CGST Act, appeared before the authorities and furnished all relevant documents, including tax invoices, e-way bills, bank statements, books of accounts and ledgers. Further, during the Financial Year 2025-26, the Central GST authorities conducted search and inspection proceedings under Section 67 of the CGST Act at the Petitioner's business premises, wherein the entire stock was physically verified and the books of accounts, purchase records, stock registers and GST returns were duly examined. Upon pointing out certain discrepancies, the Petitioner deposited the amount determined by the department through Form GST DRC-03, pursuant to which the proceedings were concluded.

3. It is further submitted that the suppliers themselves categorically admitted before the department that aluminium scrap had actually been supplied to the Petitioner, thereby establishing the actual movement and receipt of goods. Despite the availability of such material and evidence, the Respondents proceeded mechanically on vague and unsubstantiated allegations, without considering the documents and explanations already furnished by the Petitioner.

4. The petitioner further contends that once the Central GST authorities had initiated proceedings, conducted physical verification, examined the relevant records and concluded the proceedings in respect of the same subject matter and tax period, the initiation of parallel proceedings by the State GST authorities is impermissible in view of the statutory scheme of cross-empowerment under Section 6 of the CGST Act and the corresponding provisions of the MPGST Act.

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5. It is also contended that the impugned action is in gross violation of Rule 86A, as the Respondents have failed to record any valid, independent and objectively founded reasons to believe before blocking the Petitioner's Electronic Credit Ledger. The allegation that the Petitioner availed input tax credit without invoices or debit notes is vague, cryptic and devoid of particulars concerning the relevant invoices, transactions, suppliers, tax periods or alleged discrepancies. Such bald allegations cannot satisfy the mandatory statutory requirement of formation of reasons to believe.

6. The impugned action is, therefore, vitiated by non-application of mind, absence of cogent material, violation of the principles of natural justice and arbitrary exercise of statutory power The blocking of the Electronic Credit Ledge, without due compliance with the statutory safeguards under Rule 86A, has also caused grave prejudice to the petitioner by adversely affecting its business operations and working capital. Accordingly, the petitioner seeks quashing of the impugned action and restoration of the blocked Electronic Credit Ledger amounting to Rs.23,78,030/-.

7. Learned counsel for the respondents vehemently opposed the writ petition, contending that the same is misconceived, devoid of merit and liable to be dismissed. It was submitted that the impugned action dated 10.03.2026 has been taken strictly in accordance with the provisions of the MPGST/CGST Act, 2017 and the Rules framed thereunder. The respondents contended that the earlier proceedings initiated by the Central Authorities pertained to a distinct issue and were based on separate facts and

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transactions. During the said proceedings, the petitioner's stock, books of accounts, purchase records, stock registers and GST returns were examined, and certain discrepancies were noticed, resulting in the raising of an appropriate demand. The said proceedings have already attained finality, as evident from Annexure P-8, whereby the issue concerning alleged clandestine removal of goods for FY 2025-26 stood concluded.

8. It was further submitted by the learned counsel for respondents that the present proceedings are entirely independent and relate to the alleged fraudulent availment and utilisation of Input Tax Credit (ITC) during FY 2025-26. The same are founded upon a separate investigation conducted by the Joint Commissioner, State Tax, Anti-Evasion Bureau, concerning alleged passing of bogus ITC by M/s Unique Trade and Company. In this regard, reliance has been placed upon the letter dated 19.02.2026 issued by the Joint Commissioner, State Tax, Anti-Evasion Bureau, Jabalpur, communicating the findings of the investigation and furnishing the basis for initiating proceedings against the petitioner.

9. The respondents also controverted the petitioner's contention that the blocking of the Electronic Credit Ledger without issuance of a show-cause notice or grant of an opportunity of personal hearing violates Rule 86A of the CGST Rules. It was contended that Rule 86A does not mandate the issuance of a prior show-cause notice or grant of a pre-decisional personal hearing before taking action thereunder. Lastly, it was submitted that the investigation conducted under Section 67(2) of the Act revealed that M/s Unique Trade and Company had issued invoices to the petitioner

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showing outward supply of aluminium scrap, whereas the investigation allegedly established that the said supplier had neither actually purchased the aluminium scrap nor discharged its liability towards Reverse Charge Mechanism (RCM). Accordingly, the respondents sought to justify the impugned action on the ground that the ITC availed on the basis of such transactions was prima facie fraudulent.

10. The Court heard the rival submissions and has gone through relevant material on record.

11. The case of the petitioner is that the Petitioner is a private limited company duly registered under the CGST/MPGST Act, bearing GSTIN 23AAPCM7429M1ZV, and is engaged in the business of manufacturing and trading of aluminium extrusion and allied products. Respondent No. 3 issued summons dated 27.12.2025 and 05.01.2026 under Section 70 of the GST Act, requiring the Petitioner to furnish documents concerning transactions with certain suppliers. In compliance thereof, the Petitioner furnished all relevant documents, including GSTR-2A, purchase and sale invoices, party-wise ledgers, bank statements, e-way bills, TDS details and transportation records, thereby extending full cooperation with the departmental inquiry.

12. According to the petitioner, despite such compliance, Respondent No. 2, vide order dated 10.03.2026, blocked the Petitioner's Electronic Credit Ledger (ECL) to the extent of Rs.23,78,030/- under Rule 86A of the GST Rules, alleging availment of Input Tax Credit without valid invoices or debit notes. Subsequently, on 06.05.2026, Respondent No. 2 issued a Summary Show Cause Notice in Form GST DRC-01A, bearing Reference No.

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ZD2305260052080, for FY 2025-26, proposing a demand of tax, interest and penalty aggregating to Rs. 1,78,66,416/-, alleging wrongful availment of ITC amounting to Rs. 81,95,604/- from three suppliers, namely, M/s Unique Trade & Company, M/s Madhushree Metal and M/s Mahakal Metal. The proposed action is primarily founded on the allegation that the aforesaid suppliers had availed irregular ITC, and consequently, the ITC availed by the Petitioner was liable to be denied under Section 122(vii) read with Section 74A of the CGST/MPGST Act.

13. The Respondents have sought to justify the blocking of the Electronic Credit Ledger by invoking Rule 86A, contending that the competent authority had formed the requisite reason to believe on the basis of an investigation report received from the Joint Commissioner, State Tax, Anti-Evasion Bureau. As per respondents, Section 6 of the MPGST Act does not operate as a bar against the present proceedings, as the same concern a distinct transaction and an independent cause of action, rather than parallel proceedings in respect of the same subject matter. Thus, the impugned action is sought to be sustained by the Respondents on the basis of the investigation report and the alleged irregular availment of ITC by the Petitioner's suppliers.

14. Section 6 of the MPGST Act prohibits parallel proceedings only in respect of the same subject matter. Since the present proceedings relate to a separate transaction and a fresh cause of action, the provisions of Section 6 are not attracted. Rule 86A empowers the proper officer to block the Electronic Credit Ledger where he has reasons to believe that the Input Tax

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Credit has been fraudulently availed or is otherwise ineligible. In the present case, Respondent No.3 formed such belief on the basis of the investigation report received from the Joint Commissioner, State Tax, Anti-Evasion Bureau.

15. During the pendency of the petition, the Joint Commissioner, State Tax, Jabalpur Division No. 1, vide order dated 28.09.2026 (Annexure P/11), after considering the petitioner's reply to the show cause notice and examining the relevant facts and supporting documents, held that the Input Tax Credit (ITC) availed by the petitioner from the three suppliers, namely, M/s Trade & Company, M/s Madhushree Metal and M/s Mahakal Metal, was bogus and inadmissible and came to the conclusion that on account of submission of a bogus ITC claim under Section 74A(5)(ii) read with Section 50 and section 122 of the MPGST/CST Act, directed the petitioner to pay an additional demand of Rs.1,78,66,416/-, which includes the tax equivalent to claim ITC, interest and penalty. This order has been challenged by the petitioner by way of an amendment.

16. The authority while passing the order dated 28.09.2026 considered the fact that the above dealers have issued invoices for outward supply of aluminum scrap to the petitioner, the details of which for financial year 2025-26 upto December, are as follows:-

From GSTIN	From Fealer	YEAR	To GSTIN	To Dealer	Taxable Value (₹)	IGST (₹)	CGST (₹)	SGST (₹)
23EZDPKO419M1ZF	UNIQUE TRADE AND COMPANY	**2025-26 UP to DECEMBER**	23AAPCM7429M1ZV	MAA NARMADA ALUMINIUM EXTRUSION PRIVATE LIMITED	23291924	0	2096273	2096273

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23BGPPKSS49C1ZD	MADHUSHREE METAL	**2025-26 UP to DECEMBER**	23AAPCM7429M1ZV	MAA NARMADA ALUMINIUM EXTRUSION PRIVATE LIMITED	17486084	0	1573748	1573748
23ELKPK6940L1Z0	MAHAKAL METAL PROP-JASMEET KOTWANI	**2025-26 UP to DECEMBER**	23AAPCM7429M1ZV	MAA NARMADA ALUMINIUM EXTRUSION PRIVATE LIMITED	47531229	0	427781	427781
					45531130	0	4097802	4097802

17. The finding was based on the investigation conducted by the Anti-Evasion Bureau, Jabalpur under Section 67(2) of the MPGST Act, 2017, which revealed that the aforesaid suppliers were non-genuine entities and had neither actually received nor supplied the goods purportedly covered by the invoices. They had allegedly availed ITC on the strength of fictitious invoices relating to medicines, mobile phones, gold, garments, etc., and utilised such credit to discharge tax liability on purported outward supplies of aluminium scrap and other goods, without any actual movement or supply of goods.

18. Accordingly, the authority held that the essential conditions prescribed under Sections 16(2)(b) and 16(2)(c) of the MPGST/CGST Act, 2017, namely, actual receipt of goods and actual payment of tax to the Government, stood unfulfilled. Consequently, the ITC availed by the petitioner was held inadmissible, resulting in an additional demand of Rs.1,78,66,416/-, comprising tax, interest and penalty under Section 74A(5)(ii), read with Sections 50 and 122 of the Act. The aforesaid order has subsequently been challenged by the petitioner by way of amendment to the

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present petition.

19. On going through the order dated 26.09.2026, it is revealed that the aforesaid dealers are merely paper entities and have not undertaken any genuine purchase or sale of goods, including aluminium scrap, TMT bars, medicines, mobile phones, gold, garments, etc. Further, they have neither actually received nor supplied any goods, nor discharged the applicable GST liability under RCM/FCM on the purported outward supply of aluminium scrap, either in cash or through admissible ITC. Accordingly, the ITC availed by such dealers is inadmissible under Sections 16(2)(b) and 16(2)(c) of the CGST/MPGST Act, 2017, as the statutory conditions of actual receipt of goods and actual payment of tax to the Government have not been fulfilled. Therefore, the purported transactions are fictitious and the ITC claimed thereon is liable to be disallowed.

20. The order dated 26.09.2026 which has been challenged by way of amendment shows that the petitioner's contention that ITC availed by it is genuine merely because the proprietors of M/s Unique Trade & Company, M/s Madhushree Metal and M/s Mahakal Metal admitted having made actual supplies to the petitioner M/s Maa Narmada Aluminium Extrusion Private Limited is not acceptable in view of the findings of the departmental investigation. During investigation, the proprietors of the concerned firms, including Nikhil Kotwani and Ashok Kotwani, categorically stated that they neither purchased nor sold aluminium scrap, TMT bars, medicines, mobile phones, gold, garments, etc. Further, no physical stock of the aforesaid goods was found at the business premises of the four firms on 26.12.2025. The

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investigation also revealed that the firms had neither made any genuine inward purchases of aluminium scrap nor discharged the applicable RCM/FCM tax liability. The transactions were found to be part of circular trading undertaken to facilitate the passing on of bogus ITC without any actual movement or supply of goods. It was further observed that Ashish Kotwani, an advocate and accountant, facilitated the creation of documentary evidence, including e-way bills and banking transactions, to lend apparent legitimacy to the circular transactions and concealed the underlying tax evasion. Accordingly, the authority was of the view that the mere existence of tax invoices, e-way bills, banking transactions and statements of the suppliers cannot establish the genuineness of the transactions in the absence of actual receipt and supply of goods. The petitioner's claim that the suppliers' ITC alone was bogus while the ITC availed by it was genuine is therefore untenable. Since the petitioner availed and utilised ITC without actual receipt of goods, the provisions of Section 122(1)(vii) of the CGST/MPGST Act, 2017 stand attracted. Consequently, the petitioner's contention is devoid of merit and is liable to be rejected by the department.

21. It appears that pending the petition, the show case notice has been decided and an order on show cause notice under Section 74A has already been passed, which the petitioner has indicated by way of an amendment in the writ petition and has also prayed for quashing the order under Section 74A of the Act. As the Court has on merits found no reason to interfere with the show cause notice and considering the fact that a statutory remedy of appeal is available to the petitioner and as the issue involved would entail

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examination of the facts pertaining to the allegations which the department has in its order under Section 74A of the Act found to be substantiated by evidence, the Court may refrain from exercising the power under Article 226 of the Constitution of India.

22. Accordingly, the petition stands dismissed. However, the observations made in this order are only for the purpose of deciding the present petition and may not be treated as an observation on merits as the statutory proceedings are yet to be undertaken by the petitioner.

(ALPESH Y. KOGJE)
CHIEF JUSTICE

(VIVEK JAIN)
JUDGE

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