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* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

Date of decision: 05th NOVEMBER, 2026

IN THE MATTER OF:

\# **CNR No. DLHC010561572025**

\+ ITA 298/2025

RAJASTHAN PRIME STEEL PROCESSING CENTER PRIVATE LIMITED .....Appellant

Through: Mr. Nageswar Rao, /Mr. Ravilochan Daliparthi, /Mr. Pratik Rath, Advocates

versus

DEPUTY COMMISSIONER OF INCOME TAX .....Respondent

Through: Mr. Karan Sachdev, SSC, Mr. Shivendra Singh, JSC and Mr. Anmol Jagga, JSC

(10)

\# **CNR No. DLHC010608582025**

\+ ITA 335/2025

RAJASTHAN PRIME STEEL PROCESSING CENTER PRIVATE LIMITED .....Appellant

Through: Mr. Nageswar Rao, /Mr. Ravilochan Daliparthi, /Mr. Pratik Rath, Advocates

versus

DEPUTY COMMISSIONER OF INCOME TAX .....Respondent

Through: Mr. Karan Sachdev, SSC, Mr.

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Shivendra Singh, JSC and Mr. Anmol Jagga, JSC

CORAM:
HON'BLE MR. JUSTICE SUBRAMONIUM PRASAD
HON'BLE MS. JUSTICE RENU BHATNAGAR

JUDGMENT (ORAL)

1. The present appeals have been filed by the Assessee/Appellant challenging the common order dated 27.03.2025, passed by the Income Tax Appellate Tribunal (ITAT), Delhi Bench, in ITA Nos. 3292 & 3293/Del/2018, pertaining to Assessment Years 2009-10 and 2010-11 ('**Impugned Order**').

2. Shorn of unnecessary details, the facts, in brief, leading to the present Appeal, are as under:

a. The Appellant, Rajasthan Prime Steel Processing Center Private Limited was incorporated on 05.10.2007 as a subsidiary of Honda Trading Corporation, Japan, which is, in turn, a subsidiary of Honda Motor Co. Ltd., Japan. It is stated that as on 31.03.2016, Honda Trading Corporation, Japan holds 49% of the equity share capital while 30% shares are held by Steel Centre Co. Ltd., 13.53% by Honda Cars India Limited, 6.04% by Honda Trading Asia Co. Ltd., Thailand, and 1.42% shares are held by Honda Trading Corporation India Private Limited.

b. It is stated that during the relevant financial years, the Assessee entered into various international transactions

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with its Associated Enterprises (AEs), including purchase of raw materials, stores, spares and consumables, payment of royalty/technical guidance fees and purchase of capital goods. It is stated that the Assessee maintained the prescribed transfer pricing documentation and obtained a transfer pricing study from an independent consultant to determine the Arm's Length Price (ALP) of the international transactions. The Assessee's business comprised two principal activities, namely, trading of steel coils without any substantial value addition and processing of steel coils through activities such as slitting, blanking and welding, before supplying tailor-made products to its customers, including its AEs. According to the Assessee, the processing activities did not constitute full-fledged manufacturing and the business was required to be considered as a unified business segment.

c. It is stated that the Assessee filed its returns of income declaring losses of Rs.24,55,49,827/- and Rs.5,00,77,416/- for AYs 2009-10 and 2010-11, respectively.

d. It is stated that the returns were selected for scrutiny and, having regard to the quantum of international transactions, the Assessing Officer referred the matter to the Transfer Pricing Officer (TPO) for determination of the ALP of the international transactions. It is stated that the TPO, however, did not accept the transfer pricing

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analysis undertaken by the Assessee and proceeded to treat the Assessee itself as the tested party, instead of its foreign AEs, for AY 2009-10. The TPO further divided the Assessee's business into two separate segments, namely, manufacturing and trading, and applied the Transactional Net Margin Method (TNMM) for benchmarking the two segments independently. It is stated that the TPO also rejected the comparables selected by the Assessee and introduced fresh comparables for determining the operating margins. Consequently, transfer pricing adjustments of Rs.14,91,72,965/-, i.e., Rs.8,82,92,518/- in the manufacturing segment and Rs.6,08,80,447/- in the trading segment for AY 2009-10 and Rs.14,95,97,790/- in the manufacturing segment for AY 2010-11 were made.

e. Pursuant thereto, the Assessing Officer passed the final assessment orders dated 29.04.2013 and 28.04.2014 for the said Assessment Years being 2009-10 and 2010-11 respectively under Section 143(3) read with Section 144C of the Income Tax Act, 1961 ('**IT Act**'), incorporating the adjustments proposed by the TPO and assessing the total loss of the Assessee at Rs.9,63,76,862/- for the AY-2009-10 and Rs.9,95,20,370/- for the AY-2010-11 under the normal provisions of the IT Act.

f. Aggrieved by the aforesaid additions, the Assessee preferred appeals before the Commissioner of Income

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Tax (Appeals) [CIT(A)].

g. *Vide* common order dated 18.12.2017, the CIT(A) upheld the action of the TPO but granted partial relief to the Assessee in respect of exclusion of customs duty from the operating margin, working capital adjustment, etc.

h. The TPO thereafter passed an order dated 23.05.2018 giving effect to the order passed by the CIT(A), whereby the transfer pricing adjustments were recomputed after allowing certain adjustments.

i. Aggrieved by the order of the CIT(A), the Assessee filed appeals before the ITAT in ITA Nos. 3292/Del/2018 and 3293/Del/2018 for AYs 2009-10 and 2010-11, respectively challenging the bifurcation of its business into manufacturing and trading segments, the selection of comparables and the application of TNMM by the TPO, besides disputing the adjustments made without first rejecting its transfer pricing study.

j. The Revenue also preferred cross-appeals before the ITAT bearing ITA Nos. 3537/Del/2018 and 3538/Del/2018, challenging the relief granted by the CIT(A), particularly with regard to exclusion of customs duty from the operating margin, treatment of foreign exchange gain/loss as operating in nature and allowance of working capital adjustment.

k. The ITAT, *vide* common order dated 27.03.2025, upheld the segmentation of the Assessee's activities into

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manufacturing and trading segments by relying upon the decision of the coordinate Bench of ITAT in the Appellant's case for AY 2016-17 and also affirmed the application of TNMM and the selection of the Assessee as the tested party for both assessment years. However, with regard to the selection of comparables, the ITAT directed the TPO to adopt the undisputed comparables selected either by the Assessee or the TPO in AYs 2012-13, 2013-14 and 2014-15, while taking the financial data of the respective assessment years under consideration, and remitted the issue to the TPO for recomputation of the transfer pricing adjustments. The ITAT further directed that the Assessee be granted consequential adjustment on account of capacity utilisation for AY 2009-10, subject to verification by the TPO. The ITAT also dealt with the Revenue's grounds concerning customs duty, foreign exchange fluctuation and working capital adjustment.

l. Aggrieved by the aforesaid common order dated 27.03.2025, the Assessee has preferred the present appeals under Section 260A of the IT Act.

3. Learned counsel appearing on behalf of the Appellant submitted that the ITAT erred in upholding the transfer pricing adjustments made by the TPO without first examining the validity of the exercise undertaken by him in substituting the economic analysis furnished by the Appellant in its transfer pricing study. It was contended that the

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TPO had neither identified any specific deficiency in the transfer pricing study nor recorded any valid reasons for rejecting the same before undertaking an independent benchmarking exercise. Reliance was placed upon the decisions of this Court in Li and Fung India (P.) Ltd. v. Commissioner of Income Tax, **[2014] 361 ITR 85 (Delhi)** and Principal Commissioner of Income Tax v. Coim India (P.) Ltd., **[2024] 160 taxmann.com 756 (Delhi)**, to contend that the TPO could not substitute his own benchmarking analysis without expressly rejecting the transfer pricing study furnished by the Assessee. It was submitted that the ITAT, despite noticing this specific contention and the applicable legal position, failed to return any finding on the same.

4. It was further contended that the TPO had erroneously bifurcated the integrated business activities of the Appellant into two artificial segments, namely, manufacturing and trading, whereas the Appellant was essentially engaged in the trading and processing of steel coils. It was contended that the activities of slitting, cutting and blanking of steel coils did not result in the emergence of any new and distinct commercial product and, therefore, could not be characterised as manufacturing. In this regard, reliance was placed upon Section 2(29BA) of the IT Act and the Judgment of the Apex Court in Saraswati Sugar Mills v. Haryana State Board, **(1992) 1 SCC 418** and this Court's Judgment in Faridabad Iron & Steel Traders Association v. Union of India, **2004 (178) E.L.T. 1099 (Del.)** to contend that mere processing of steel coils cannot be treated as manufacture. It was further contended that the ITAT, without examining the machinery employed, the nature of processing activities and the material placed

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on record, mechanically upheld the segmentation by relying upon the decision of the coordinate Bench of ITAT in the Appellant's case for AY 2016-17, which itself was under challenge before this Court. It was also pointed out that, for AYs 2012-13 and 2014-15, the Revenue had accepted entity-level benchmarking by applying TNMM to the unified business, and the ITAT's decision to adopt a contrary approach for the years in question was inconsistent and unsustainable.

5. Learned counsel for the Appellant further submitted that the ITAT had erred in treating the Appellant as the tested party instead of its AEs, as adopted in the transfer pricing documentation. It was contended that AY 2009-10 was the first year of commercial operations of the Appellant, during which it had operated for less than five months and had utilised only 75% of its capacity. Learned Counsel further contended that peculiar circumstances of the initial year of operations, including capacity underutilisation and pre-operative expenses, were not duly considered while determining the ALP. It was also argued that the ITAT's direction to adopt the comparables selected in AYs 2012-13, 2013-14 and 2014-15 was legally untenable, since the benchmarking exercise in those years had been undertaken at the entity level, whereas the present case proceeded on an artificial bifurcation of the business into two segments.

6. Heard the learned Counsels for the parties and perused the material on record.

7. The principal controversy arising in the present appeals relates to the manner in which the TPO undertook the benchmarking exercise

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for determining the ALP of the international transactions entered into by the Assessee with its AEs. A perusal of the Impugned Order indicates that the Assessee had specifically questioned the very basis on which the TPO substituted the benchmarking analysis furnished by it and proceeded to undertake an independent analysis without expressly rejecting the transfer pricing study of the Appellant. As pointed out by the learned Counsel for the Appellant, the ITAT, while noticing the rival submissions and the judicial precedents relied upon by the Assessee, has not returned a clear and categorical finding on this fundamental issue. In our view, the validity of the approach adopted by the TPO was required to be examined before proceeding to determine the correctness of the transfer pricing adjustments.

8. Further, the question whether the activities undertaken by the Assessee constituted manufacturing or merely processing of steel coils was also required to be examined in the light of the nature of activities actually performed, the machinery employed, the extent of value addition and the functional, asset and risk (FAR) profile of the Assessee. The Assessee had specifically contended that activities such as cutting, slitting, blanking and welding did not result in the emergence of a new and distinct commercial product and, therefore, could not be treated as manufacturing activities. The ITAT, however, appears to have proceeded substantially on the basis of the findings recorded by the coordinate Bench of ITAT for AY 2016-17, without independently examining the factual material and objections raised by the Assessee for the assessment years under consideration. It is pertinent to note that the aforesaid decision of the ITAT for AY 2016-

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17 was subsequently examined by this Court in ITA No. 175/2023, decided on 05.11.2026, wherein the impugned order of the ITAT has been set aside and the matter has been remanded to the Assessing Officer for fresh consideration. Since the ITAT, while deciding the appeals before it has substantially relied upon the findings recorded in the aforesaid decision of the ITAT, which has now been set aside by this Court in ITA No.175/2023, the very basis of the impugned decision in the present appeals also requires reconsideration. In these circumstances, the present appeals also deserve to be allowed and the matter remanded to the Assessing Officer for fresh consideration in accordance with law.

9. In view of the aforesaid, particularly having regard to the fact that the ITAT's decision substantially rests upon findings which have since been set aside by this Court, we are of the considered opinion that the issues arising in the present appeals also require fresh consideration by the Assessing Officer, after obtaining the necessary report and determination from the TPO, wherever required.

10. Accordingly, the impugned order dated 27.03.2025, to the extent challenged in the present appeals, is set aside and the matter is remanded to the Assessing Officer for fresh consideration in accordance with law. The Assessing Officer/TPO shall examine the transfer pricing study furnished by the Assessee, the objections raised thereto, the nature of its business activities, the appropriate segmentation, selection of comparables and the adjustments claimed, after affording the Assessee an effective opportunity of hearing.

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11. All the contentions of the parties are left open to be urged before the Assessing Officer/TPO, who shall pass a reasoned order uninfluenced by the observations made hereinabove.

12. The appeals are, accordingly, allowed in the aforesaid terms. Pending applications, if any, also stand disposed of.

SUBRAMONIUM PRASAD, J

RENU BHATNAGAR, J

NOVEMBER 5, 2026
Rahul

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