



WEB COPY

TC No. 31 of 2



IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 06-07-2026

CORAM

THE HON'BLE DR JUSTICE G. JAYACHANDRAN

AND

THE HON'BLE MRS.JUSTICE N. MALA

TC No. 31 of 2015

The State of Tamil Nadu,
Rep By The Joint Commissioner (CT),
Chennai South Division,
Chennai – 600 006.

..Petitioner(s)

Vs

Tvl.Blue Diamond Leders

..Respondent(s)

Tax Case against the order of Tamil Nadu Sales Tax Appellate Tribunal
(Main Bench), Chennai, dated 11.07.2012, passed in STA No.87 of 2010.

For Petitioner(s): Ms.G.Dhana Madhri,
Govt. Advocate (Taxes)

For Respondent(s): Mr.Varun Ranganathan,
for Mr.Ravi Kannan

ORDER

(Order of the Court was made by Dr.G.Jayachandran J.)

State has filed this case, aggrieved by the order passed by the Tamil Nadu
Sales Tax Appellate Tribunal, Main Bench, Chennai, in S.T.A.No.87 of 2010,



dated 11.07.2012, holding that chemical used in the process of conversion of wet blue into finished leather cannot be considered as raw material used in manufacturing process.

2. This Tax Case was admitted on the following substantial questions of law :

(1) Whether the order of the Appellate Tribunal is correct in interpreting the provisions of Section 23 of the Tamil Nadu General Sales Tax Act, 1959, and confirming the order of the Appellate Deputy Commissioner (CT) ?

(2) Whether the Appellate Tribunal is correct in holding that the assessee has purchased the chemicals on the strength of Form XVII and used them in the conversion of wet blue into finished leather and that it does not amount to violation of provisions of Section 45(2) of the Tamil Nadu General Sales Tax Act, 1959, attracting levy of penalty under Section 23 of the Act ?

(3) Whether the findings of the Appellate Tribunal are in consonance with the provisions of Section 3 (3), 45 (2) (e) and 23 of the Tamil Nadu General Sales Tax Act, 1959 ?

3. The order of the Tribunal impugned in the present proceedings holding against the Department was based on a judgment of this Court rendered in *Golden Leathers vs. Secretary, Tamil Nadu Sales Tax Appellate Tribunal and 3 Others*, reported in 2010 35 VST 216, wherein this Court observed as below :

“The Tribunal did not take note of the factual findings of the Appellate Assistant Commissioner, who had not only referred to various stages, which the wet blue leather undergoes and becomes



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finished leather, but also the fact that each activity is known in the industry with different names. One is called the full-fledged unit, by which, the raw hides and skins get transformed into finished leather : but the other is called the wet unit; and the third is called the dry unit. It is after discussing these facts the Appellate Assistant Commissioner came to the conclusion that a manufacturing activity takes place. The Tribunal appears to have been persuaded by the fact that in item 7B of Schedule II to the Act, the two categories of leather that are mentioned in the entry are ‘raw hides and skins’ and ‘dressed hides and skins’. The entries indicate taxability and the rate. That cannot decide the issue as to whether any manufacturing activity takes place or not. Both ‘wet leather’ and ‘finished leather’ may be described as “dressed hides and skins” that is opposed to “raw hides and skins”. But we must still examine whether, when the blue takes through the various stages, a manufacturing activity takes place. The change or series of changes take the wet blue to a point where it can no longer be regarded as wet blue but must be recognized as finished leather. So there is a manufacture. This question must be decided on the facts and circumstances of each case that comes up for consideration, the processes that the particular goods pass through and whether they get converted or not and whether the inputs are used for such activity. In this case, we are satisfied that the activity amounts to a manufacturing activity.”

Thus, on facts, this Court has already held that chemical use for converting hides and skins into leather is to be treated as material used for manufacturing.

4. Learned counsel for the State also furnished a copy of the order passed by this Court in T.C.No.59 of 2019, which was in respect of the same assessee



for the Assessment Year 2002-2003, wherein it was held that the change or series of changes take the wet blue to a point where it can no longer be regarded as wet blue, but must be recognized as finished leather and so there is a manufacture, in which chemicals are used as an input in the process of said conversion.

5. Therefore, the Courts have consistently held in the case of assessee as well as others that chemical used in the process of conversion of raw hides and skins to leather is to be treated as an input for manufacture.

6. We find no ground to interfere with the order of the Tamil Nadu Sales Tax Appellate Tribunal. Therefore, the interpretation of the Appellate Tribunal in respect of Section 23 of the Tamil Nadu General Sales Tax Act, 1959, confirming the order of the Appellate Deputy Commissioner (CT), Kancheepuram, is upheld and the first substantial question of law is held against the Revenue. As a corollary, second and third substantial questions of law do not arise.

7. Tax Case is dismissed. No costs.

(G.J.,J.) (N.M.,J.)
06-07-2026

Index: Yes/No
Speaking/Non-speaking order
Neutral Citation: Yes/No

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**DR.G.JAYACHANDRAN, J.
AND
N.MALA, J.**

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