

IN THE HIGH COURT OF JUDICATURE AT BOMBAY

CIVIL APPELLATE JURISDICTION

WRIT PETITION NO. 3444 OF 2026

Hemang Bipin Varaiya ... Petitioner
Versus
The State of Maharashtra & Ors. ... Respondents

Mr. Nirmal Pagaria, for the Petitioner.
Ms. Shruti D. Vyas, Addl. Govt. Pleader with Mr. Aditya R. Deolekar, AGP for the State.

CORAM: G. S. KULKARNI &
AARTI SATHE, JJ.

DATE: 18 MARCH 2026

P.C.

1. This petition under Article 226 of the Constitution is filed praying for the following substantive reliefs:

(a) This Hon'ble Court be pleased to issue any appropriate Writ or Order or direction under Article 226 of the Constitution of India thereby calling for relevant record and proceedings from the office of respondent No.3 and after going through the same, be pleased to quash and set aside impugned action dated 24.7.2025 which has been passed by Respondent No.3 in violation of principle of Natural Justice and the Act.

(b) this Hon'ble Court be pleased to issue a Writ of Mandamus, or a Writ in the nature of Mandamus, or any other appropriate writ Order or direction to the Respondents to unblock the Input Tax Credit to the tune of Rs.1.42 crore blocked by Respondent No.3."

2. The petitioner is assailing the impugned action on behalf of respondent No.3 of blocking Input Tax Credit of Rs.1.42 crores in breach of the principles of natural justice and without providing any reasons as also without satisfying the conditions as mandated under Rule 86-A of the Central Goods and Services Tax Rules 2017 (for short **CGST Rules**).

3. On 17 July 2025, respondent No.3 issued a show cause notice to the petitioner as to why the petitioner's input tax credit of Rs.1.42 crores be not blocked. Before the petitioner could file a reply to the show cause notice, on 24 July 2025 the impugned action of blocking Rs.1.42 crores was resorted without taking the show cause notice to its logical conclusion.

4. Learned Counsel for the petitioner would submit that the pre-requisites which are prescribed under Rule 86-A of the CGST Rules are required to be adhered to by respondent No.3 which provides for conditions of use of amount available in the electronic credit ledger. He submits that the power of blocking utilization of input tax credit in the electronic credit ledger, is exercised in regard to the input tax available in the electronic credit ledger which has pre-requisites prescribed under Rule 86A. It is also submitted that there was also a requirement of appropriate reasons to believe that such credit of input tax available in the electronic credit ledger was fraudulently availed or is ineligible input tax credit. However, no such opinion was formed and no order was passed in the case of the petitioner. Learned Counsel for the petitioner submits that, so far, no order has been passed on the show cause notice as per his instructions.

5. In this view of the matter, he would submit that the impugned action is in the teeth of Rule 86A of the CGST Rules. In support of his contention, he has placed reliance on the decision of the co-ordinate Bench of this Court in **Rawman Metal & Alloys Vs. The Deputy Commissioner of State Tax, Thane**¹ in which the Court considering the purport of Rule 86A has categorically held that Rule 86A would be confined to the blocking of the Electronic Credit Ledger only to the

¹ Writ Petition (I) No.10923 of 2025, decision dt. 7/10/2025

extent of the credit available in the electronic credit ledger and not the future credit. It is also felt that admissibility of input tax credit can be verified from issuance of a show cause notice and thereafter, the adjudication of the liability. Referring to the decision of the Gujarat High Court in **Samay Alloys India Pvt. Ltd. Vs. State of Gujarat**², it was submitted that the powers under Rule 86A cannot be invoked in the absence of any credit balance in the electronic credit ledger. In the present case, it is contended on behalf of the petitioner that at the relevant time, there was a negative balance and therefore, there was no question of blocking of the petitioner's electronic credit ledger by the impugned order.

6. Having heard learned Counsel for the parties and having perused the record, as also the position in law as laid down by this Court in **Rawman Metal & Alloys** (supra) which also refers to the other decisions, we are of the clear opinion that in the present case there could not have been a negative blocking, as it is beyond the ambit of Rule 86A of the CGST Rules, and the unblocking of negative balance be restored to the extent of Rs.1.42 crores.

7. In the aforesaid circumstances, the petition needs to succeed. It is accordingly allowed in terms of prayer clause (b).

8. No costs.

9. We clarify that we have not examined any other issue. If there are any other actions which are required to be taken, the same be taken in accordance with law.

(AARTI SATHE, J.)

(G. S. KULKARNI, J.)

2 Special Civil Appln.No.18059 of 2021 decided on 03/02/2022