IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 07.01.2026

CORAM :

THE HONOURABLE DR.JUSTICE ANITA SUMANTH
and
THE HONOURABLE MR.JUSTICE MUMMINENI SUDHEER KUMAR

T.C.(R).No.5 of 2013

M/s. Nippon Audiotronix Ltd.,
Rep. By its Branch Manager,
Now at No.11, Gengu Reddy Road,
Egmore, Chennai – 600 008. .. Appellant

vs

The State of Tamil Nadu
Rep. By its Deputy Commissioner (CT),
Now Known as Joint Commissioner (CT),
Chennai (Central) Division,
Chennai – 600 006. .. Respondent

Prayer: Revision filed under Section 38(1) of the TNGST Act, 1959 against the order of the Tamil Nadu Sales Tax Appellate Tribunal (Main Bench) Chennai, dated 28.08.2012 in STA No. 74 of 2008.

For Appellant : Ms.C.Rekha Kumari

For Respondent : Mr.C.Harsha Raj
Special Government Pleader

ORDER

(Delivered by Dr. ANITA SUMANTH.,J)

The assessee challenges an order of the Sales Tax Appellate Tribunal ('STAT'/'Tribunal') dated 28.08.2012 dismissing an appeal filed for the period 2003 - 04. The petitioner is registered as a manufacturer of excisable goods, specifically sound systems. In respect of AY 2003 - 04, it had offered to tax the turnover from sales of car audio systems at the rate of tax of 12.5% in terms of Entry 14(vi)/Part D/First Schedule of the Tamil Nadu General Sales Tax, 1959 ('Act'/'TNGST Act').

2. The returns were originally accepted and thereafter a notice for revision of assessment was issued on 06.12.2006 proposing to revise the assessment by levying tax at 20% plus surcharge on the ground that the product sold under the logo 'Kenwood car audio' constitutes sale of an imported product. Despite objections, an assessment came to be completed on 28.02.2007 confirming the assessment proposals and imposing penalty under Section 16(2) for concealment of turnover.

3. The first appellate authority accepted the petitioner's case that what had been imported was not the car stereo perse but only components and spares which had thereafter been assembled/manufactured along with locally sourced materials, to make a finished car stereo system sold under the brand, Kenwood. He also noticed that the petitioner is a

manufacturing concern and that the car stereo systems had been cleared after remittance of excise duty.

4. Both the assessing and appellate authority had looked into the licence agreement dated 01.10.2003, between the petitioner and Kenwood, Japan. A second appeal was filed before the Tribunal at the instance of the Revenue, that reversed the order of the first appellate authority by way of the impugned order dated 28.08.2012, assailing which the present appeal has been filed.

5. The substantial questions of law admitted by this Court on 01.02.2013 are as follows:-

> *1. Whether the Tribunal is correct in reversing the order of the First Appellate Authority, who discussed the issue meticulously with the available documentary evidences and allowed the appeal in favour of the petitioner?*
>
> *2. Whether the Tribunal is right in sustaining the Assessment Order which is apparently passed by the Assessing Officer, based on the direction of his superiors and who was not allowed to apply his independent discretion?*
>
> *3. Whether the Tribunal is right in holding that even after audio system being manufactured in India and remittance of Central Excises duty on it still it is an imported product merely because some of the parts and accessories used therein were imported from foreign countries by the branch office at Noida and not by Chennai Office?*
>
> *4. Whether the Tribunal is correct in concluding that the petitioner had entered into a license agreement with a foreign company to use the pattern and technical know-how to manufacture audio system in India and so the manufacture*

audio system gets the character of imported products?

5. Whether the agreement entered with a foreign company outside India can be determinative factor to determine the rate of sales tax on the product manufactured in India?'

6. We have heard Ms.Rekha Kumari, learned counsel appearing for the petitioner and Mr.C.Harsha Raj, learned Special Government Pleader appearing for the Sales Tax Department.

7. All the questions of law relate to the core issue of whether the rate of tax on turnover from sales of car stereo systems would be 12% as applicable to domestic products, or 20%, as imported goods.

8. The petitioner had entered into a license agreement dated 01.10.2003 ('Agreement') with Kenwood Corporation Japan for product licenses and license for intellectual property rights. The recitals state that the licensee (petitioner) is desirous of assembling some of the licensor's (Kenwood) products in India and hence wished to acquire the right to use the patents, expertise and know-how relating to audio and high fidelity equipment owned by the licensor and that the licensor was willing to grant such rights to it.

9. Under Article 2 of the Agreement, Kenwood Japan grants to the petitioner a license to manufacture, assemble, install, use, repair and sell the licensed products in the designated territory, being India. To be noted

that the registered office of the petitioner is in Noida and the petitioner is the branch office in Chennai, Tamil Nadu.

10. Under Article 2.4, the parties agreed as follows:

'2-4 LICENSEE shall not use any parts and components supplied under Article 7-1 hereof for any purpose other than the manufacture or assembly of LICENSED PRODUCTS. Further, LICENSEE shall not make or manufacture or cause a third party to make or manufacture any parts or components identical or similar to KENWOOD's Custom Parts.
"KENWOOD'S CUSTOM PARTS" here mean parts or components in which LICENSOR's original ideas, designs, technology, know-how, expertise or software is involved or used or incorporated. KENWOOD's CUSTOM PARTS are listed in Annex "B" attached hereto and made a part of this Agreement.'

11. Kenwood custom products have been stipulated in Annexure B that reads as follows:-

'Annex "B" KENWOOD'S CUSTOM PARTS

Effective from October 1, 2003

The Printed Circuit Board with LICENSOR's circuit design.

The Integrated Circuit with LICENSOR's software built-in.

The Mechanism for CD/VCD player and CASSETTE/MD/DVD recorder and player exclusively designed by/for LICENSOR.

The Display, liquid crystal or fluorescent, exclusively belonging to LICENSOR.

The Front Panel exclusively belonging to LICENSOR.

The Chassis exclusively belonging to LICENSOR.

Any other parts and components are designated by LICENSOR as KENWOOD's CUSTOM PARTS.'

12. Articles 3 and 4 deal with 'Trademarks' and 'Technical Assistance' and the licensor agrees that in the event that the licensee wishes to avail expert assistance or the services of a technician or a team of technicians, such assistance will be provided, or a team of experts deputed to India, to assist, consult and co-operate with the licensee in the process of assembly, installation, distribution, inspection and servicing of the licensed products.

13. The licensed products are set out in Annexure A as follows:-

' Annex "A" LICENSED PRODUCTS

Effective from October 1,2003

Products

SKRC-208S
SKRC-288
SKRC-479
SKRC-485
SKRC-487
SKRC-487
SKRC-587'

14. Article 6 dealing with *Quality Control*, is important, particularly, 6.1 and 6.2 that read as follows:-

'Article 6. Quality Control

6-1 LICENSEE undertakes that the parts which LICENSEE *have locally procured or have procured from a source other than LICENSOR ("the Locally procured Parts") and used in the manufacture and/or assembly of LICENSED PRODUCTS shall be of good quality and shall meet the standards and specifications of the parts which LICENSOR uses for its own production. To secure such good quality and standard, LICENSEE shall notify LICENSOR beforehand of its intention to procure and use Locally-procured Parts and shall obtain LICENSOR's prior written consent thereto.*

Upon the request of LICENSOR, LICENSEE shall send samples of such Locally procured Parts to LICENSOR at the expense of LICENSEE for inspection by LICENSOR and shall not place orders for such Locally procured Parts before LICENSOR's approval has been obtained.

LICENSOR shall not be responsible for any trouble that may arise from difference between the samples of the parts, which LICENSOR has approved, and parts actually used by LICENSEE for its production.

6-2 LICENSEE undertakes that LICENSED PRODUCTS assembled by it shall be of good quality and shall meet the standards and specifications of LICENSOR's products in Japan and other countries, and shall be in accordance with all drawings, specifications, designs and other information furnished by LICENSOR under this Agreement.

LICENSOR shall be entitled to inspect whether LICENSED PRODUCTS manufactured and/or assembled by LICENSEE are of required quality and when LICENSOR finds any products to be of inferior quality then LICENSOR shall be entitled to forbid the sale of such products by LICENSEE.'

15. Article 6 reveals the understanding of the parties that the product to be manufactured by the petitioner will be an amalgam of both the parts imported by it from Kenwood as well as other parts sourced domestically. A sample bill of material that has been raised in respect of

the components of the car audio system is part of the record, and reads as follows:-

M/S NIPPON AUDIOTRONIX LTD.
D-8, Sector-10, Noida
Bill of Material for 1 No. KRC-288 Set

S.No.	Item Name	Unit	Item Code	Required Qty.	Source of Procurement
1	CASSETTE RECEIVER-KRC-288 KIT	Pcs	20101006	1	Imported
2	PCB-KRC-288	Pcs	10213009	1	Imported
3	Chassis KRC-288	Pcs	10210005	1	Imported
4	Sub Panel-KRC-288	Pcs	10212014	1	Imported
5	TDF-KRC-288	Pcs	10209008	1	Imported
6	Plastic Case KRC-288	Pcs	10212008	1	Indegeneous
7	TDM KRC-288	Pcs	10216003	1	Imported
8	Fuse 10AMP (For Set) (12100031)	Pcs	10233002	1	Indegeneous
9	Escutechion-KRC-288	Pcs	10212003	1	Indegeneous
10	Tie White (Small)	Pcs	10325005	1	Indegeneous
11	Foam Cushion (16*16*5)	Pcs	10301008	1	Indegeneous
12	Cover Top-KRC-288	Pcs	10210015	1	Imported
13	MANUAL-KRC-288	Pcs	30201004	1	Indegeneous
14	KEY	Pcs	10315009	1	Indegeneous
15	Mounting Bracket-KRC-288	Pcs	10210030	1	Indegeneous
16	BOX WHITE	Pcs	30208006	1	Indegeneous
17	Thermocole Set(H-18c)	SET	30206001	1	Indegeneous
18	Polythyne (10x14)	Pcs	30213022	1	Indegeneous
19	Polythyne(12x8)	Pcs	30213028	2	Indegeneous
20	BOX OUTER	Pcs	30207007	1	Indegeneous
21	JOB CARD	Pcs	10248001	1	Indegeneous
22	D.C.Cord-Krc-288	Pcs	10206002	1	Indegeneous
23	Plastic Grill	Pcs	30210106	1	Indegeneous

S.No.	Item Name	Unit	Item Code	Required Qty.	Source of Procurement
24	D.c cord with speaker harness	Pcs		1	Indegeneous
25	Qc passed steaker	Pcs		2	Indegeneous
26	Manufacturing sticker	Pcs		1	Indegeneous
27	Plane white steaker medium	Pcs		4	Indegeneous
28	Packing Tape				Indegeneous

16. It is the case of the revenue that, items in S.Nos.1 to 5, 7 and 12 that have been imported from Kenwood, form the core of the car audio system. The other items are only incidental and hence the inference is that what has been imported is a complete car audio system.

17. We have heard both learned counsel carefully and perused the license agreement and other papers. The issue has, in our considered view, to be decided in the light of the specific language of the rival entries under the Act. Entry 14(vi)/Part D/First Schedule relied upon by the petitioner reads as follows:-

> *'(vi) Audio and video cassettes, CDs, corresponding recorders and players, Gramophones of all kinds including record players, radio gramophones, gramophones records, matrices for records and record changers, sound recording and reproducing equipments including dicta-phones, car cassette players, tape-decks, tape players, compact disc players including a combination of any them with or without wireless reception instrument [and pagers]'*

18. The revenue has relied upon the entry relating to Imported *items falling under Schedule Eleven/entry 9 that reads as follows:-*

Imported cigarettes, medium density fibre boards, textiles and other items falling in Parts D and E of the First Schedule	*First sale*	*20 per cent*

19. It is true that some key elements of the car audio systems have been imported by the petitioner. It is equally true that the items in S.No.6, 8 to 11 and 13 to 28 of the bill of material have been procured domestically and have been used by the petitioner in the manufacture of the car audio system.

20. Under the license agreement, Kenwood has agreed to provide the use of its intellectual property, technical expertise and some signature parts of the audio systems, to the petitioner. However, the parts are of little use if they are not integrated and assembled with other parts to form a car audio system.

21. It is undisputed that the petitioner has a unit in Noida where it carries on the process of manufacture of audio systems that it clears on payment of central excise duty. The imported components are integrated with the domestically sourced materials to arrive at the final product, which is a complete car audio system. It is this which is ultimately sold.

22. There has been no allegation that the business arrangement that the petitioner is engaged in is opaque or is designed specifically to avoid

or reduce tax liability. What has been imported by the petitioner constitute only components or parts of sound systems, that are distinct, commercially saleable goods in their own right. The parts do not, by themselves, constitute a complete car audio system as contemplated under Schedule Eleven. What has been sold however is a complete car audio system, as contemplated under First Schedule/Part D/Entry 14 (vi).

23. In light of the discussion as above, we confirm the order of the first appellate authority and reverse the order of the Tribunal. The substantial questions of law are answered in favour of the assessee and adverse to the Revenue. This Tax Case (Revision) is allowed. No costs.

[A.S.M, J.] [M.S.K, J.]
07.01.2026

Index:Yes
Neutral Citation:Yes
Speaking order
mpl

To

1.The Tamil Nadu Sales Tax Appellate Tribunal (Main Bench),
Chennai.

2.The Deputy Commissioner (CT),
Now Known as Joint Commissioner (CT),
Chennai (Central) Division,
Chennai – 600 006.

DR. ANITA SUMANTH,J.
and
MUMMINENI SUDHEER KUMAR,J.

mpl

T.C.(R).No.5 of 2013

07.01.2026