BEFORE THE MADURAI BENCH OF MADRAS HIGH COURT

DATED: **10.02.2026**

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THE HONOURABLE **Mr. JUSTICE KRISHNAN RAMASAMY**

W.P.(MD)No.1470 of 2026

M/s.V.V.Iron Steel Company Private Limited,
Rep. by its Director,
S.Chandresan,
Visco Industrial Estate,
Thanoothu Village,
Aniabaranallor P.O,
Srivaikundam Taluk,
Tuticorin District - 628851. ...Petitioner

vs.

The Assistant Commissioner,
Central GST and Central Excise,
Tirunelveli Division. ...Respondent

Prayer: Writ Petition filed under Article 226 of Constitution of India, praying to issue a Writ of Mandamus directing the respondent to unblock the Input Tax Credit of Rs.4,10,94,906/- under CGST and SGST in the petitioner Electronic Credit Ledger and permit the petitioner to utilize such credit for discharge of its GST liabilities.

For Petitioner : Mr.S.Silambannan, senior counsel
for Mr.T.Bashyam

For Respondent : Mr.R.Gowrishankar

ORDER

This Writ Petition has been filed to direct the respondent to unblock the Input Tax Credit of Rs.4,10,94,906/- under CGST and SGST in the petitioner's Electronic Credit Ledger and permit the petitioner to utilize such credit for discharge of their GST liabilities.

2. The learned senior counsel appearing for the petitioner would submit that the petitioner Company has been carrying on business genuinely. While so, all of a sudden, the petitioner's electronic credit ledger was blocked on 26.11.2025, 28.11.2025 and 19.12.2025 under the pretext that the petitioner Company is having transactions with the non-existing dealers. The petitioner made a representation to the respondent on 06.01.2026 requesting to unblock their electronic credit ledger and enable them to utilize the ITC available in their electronic credit ledger to discharge their GST liabilities. However, the representation is yet to be considered. The learned senior counsel, in support of his contention, referred to the Division Bench Judgment of this Court dated 16.09.2021 in W.A.No.2341 of 2021 and prayed for appropriate orders in this matter.

3. The learned counsel appearing for the respondent has filed a status report to the effect that consequent to the order passed by this Court on

02.02.2026, the petitioner has sent the relevant documents by way of registered post to the respondent on 09.02.2026 and the respondent is in the process of verifying those documents. As the subject matter is pertaining to fake invoices, the respondent is awaiting report from the investigation agencies, who carried out investigation at the suppliers' end. According to the learned counsel, after receipt of the report, show cause notice will be issued to the petitioner, an opportunity of hearing will be provided and thereafter, appropriate orders will be passed. As far as the representation of the petitioner dated 06.01.2026 is concerned, he would submit that the same will be disposed within a period of two weeks.

4. I have given due consideration to the submissions made on either sides.

5. According to the petitioner Company, their electronic credit ledger has been blocked and hence, they are not in a position to utilize the ITC available in their credit to the extent of Rs.4,10,94,906/- and to that extent they have been suffering with financial burden. According to the respondent, the petitioner Company dealt with many number of non-existing dealers and was also involved in fake invoices case and in this regard, investigation is going on. Under such circumstances, this Court is of the

view that with regard to the above issue, the respondent can issue show cause notice, after receipt of the investigation report and take a decision is accordance with law.

6. As far as blocking of the petitioner Company's electronic credit ledger is concerned, the respondent need not issue any notice, but has to record the reason for blocking the electronic credit ledger of the petitioner. In the present case, subsequent to the blocking of the electronic credit ledger, the petitioner has made a representation on 06.01.2026 to substantiate their case. However, the same is yet to be considered. At this juncture, it is relevant to extract paragraph nos.8 to 13 of the Division Bench Judgment of this Court dated 16.09.2021 in W.A.No.2341 of 2021, as follows:-

> *"8. However, the power exercised by the respondents is under Rule 86-A. Undoubtedly, this power is a very drastic power conferred on the authority and precisely for such reason, the rule enumerates the various circumstances, under which, such a power could be exercised and they are relatable to any fraudulent activity or an activity, which would render the assessee ineligible to credit.*
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> *9. Before invoking the power under Rule 86-A, the Authority should have reasons to believe that the credit of input tax available in the electronic credit ledger has been fraudulently availed or the assessee is ineligible, on account of anyone of the*

contingencies in clauses (a) to (d) of Rule 86-A(i). That apart, the Rule contemplates that the said authorities has to record the reasons in writing and not allowed to debit any amount equivalent to such credit in the credit ledger. It is not clear as to why the appellant-assessee has not been intimated in writing as to what are the reasons, which waved the mind of the authority to invoke the power under Rule 86-A. The respondent cannot be heard to say that they can invoke the power under Rule 86-A without having reasons to believe and without recording such reasons in writing. This is a pre-requisite and in the absence any reason, which has been recorded, the invocation of power under Rule 86-A should be held to be unauthorised, illegal and without jurisdiction. Probably, if the respondent is right in saying that prior to the order of not allowing the debit of the credit, the assessee cannot expect a show cause notice to be issued. But nevertheless the power under Rule 86-A has been invoked and reasons have been recorded that needs to be communicated to the assessee so as to enable the assessee to put forth his objections and pray for release of the blocking of the electronic credit ledger. It is no doubt true that there is no such procedure provided for under Rule 86-A. Nevertheless, we are required to read the principles of natural justice into the said Rule.

10. In this regard, we rely on the decision of the Hon'ble Supreme Court in the case of GKN Driveshafts (India) Limited Vs. ITO reported in (2003) 259 ITR 19 (SC), wherein, the Hon'ble Supreme Court has laid down a procedure, which is required to be adopted by the Assessing Officer in cases, where the assessments are *reopen under Section 143(3) of the Income Tax Act, 1961. The Hon'ble Supreme Court has held that the assessee is entitled to seek for reasons for reopening and if sought for, the Assessing Officer is bound to furnish the same. It is thereafter, the assessee is entitled to file their objections to the reopening of the assessment and the objections is required to be disposed of by the Assessing Officer by passing a speaking order.*

11. Courts have held as against such order passed by the Assessing Officer rejecting the objections to the reopening, the Act having not provided any remedy, Writ Petitions are entertained by the Court under Article 226 of the Constitution of India. The unrelying principles, which can be culled out from the decision of the Hon'ble Supreme Court is that, the assessee should be afforded an opportunity of hearing and he is entitled to know as to why the assessment is sought to be reopened and he is also entitled to object to such reopening done by the Assessing Officer. The same analogy can be applied to the case on hand. If the authority concerned has reasons to believe that the credit of input tax available in the electronic credit ledger has been fraudulently availed or the assessee is ineligible on anyone of the grounds set out in the clauses from (a) to (d) of Rule 86-A(1), then, the authority, after recording the reasons may not allow to debit of any amount equivalent to such credit in the electronic credit ledger. But, after doing so, the authority is bound to communicate the reasons, which weighed in his mind to pass such an order and not allow credit of any amount equivalent to such credit in the electronic credit ledger. On receipt of such reasons, the assessee *is entitled to put forth his submission/objection requesting for lifting of such order and establishing a case that there has not been any fraudulent availment of credit or the assessee would not fall within anyone of the contingencies mentioned in clauses (a) to (d) of Rule 86-A(1) so as to make them ineligible for the credit.*

12. In the light of the above, we are of the clear view that the authority viz., respondents are bound to consider the Appellant's representation dated 22.06.2021. The representation given by the Appellant dated 22.06.2021 is by stating that they have availed credit in accordance with the provisions of the Act and Rule, and they have also pleaded the hardship caused on account of the order passed under Rule 86-A. Since the appellant-assessee did not have the benefit of the reasons on what ground the order under Rule 86-A was passed, the representation is only general in nature. Therefore, for an effective representation to be made the Appellant is entitled to know the reasons, based on which the power under Rule 86-A was invoked by the second respondent.

13. In the result, the Writ Appeal is allowed and the order passed in the writ petition is set aside and writ petition is disposed of by directing the respondents or any other officers, who have been authorized by the first respondent to communicate the reasons recorded in writing before invoking the powers under Rule 86-A to the appellant, within a period of one week from the date of receipt of a copy of this order and on receipt of the same, the appellant is entitled to file his objections within a period of three (3) days, thereafter, and on receipt of the objections, the concerned authorities shall pass an order and if the concerned authority is *satisfied with the explanation may revoke the order passed under Rules 86-A or otherwise pass a speaking order as to why the request made by the appellant cannot be complied with and communicate to the appellant within a period of seven (7) days, thereafter. In such an event, it will be open to the appellant to question the said order in the manner known to law. No costs."*

7. After elaborate discussions, in the above Writ Appeal, it was held that while passing orders to block the electronic credit ledger in terms of Rule 86-A of Central Goods and Services Tax Rules, 2017, the respondent should communicate the reasons recorded in writing to the appellant therein and subsequent to the receipt of objections, shall pass orders either for revocation or otherwise a speaking order, stating as to why the request of the appellant therein cannot be considered.

8. In the present case, already a representation was made by the petitioner Company and respondent also seeks two weeks time to dispose the same.

9. In view of the above, this Writ Petition is disposed of with the following directions:-

(i) In the event, if the petitioner is inclined to file any reply along with additional documentary evidence to substantiate their case, they are permitted to file the same before the respondent within a period of one week from the date of receipt of a copy of this order.

(iii) Thereafter, the respondent is directed to fix a date for personal hearing, issue notice to the petitioner, and after hearing the petitioner, take a decision on the petitioner's representation dated 06.01.2026, either to revoke the blocking of electronic credit ledger or otherwise pass speaking orders as to why the request of the petitioner cannot be acceded to. The said exercise shall be completed within a period of two weeks from the date of reply by the petitioner, and in event if no reply is filed, within a period of three weeks from the date of receipt of a copy of this order. No costs.

10.02.2026

Speaking / Non-speaking order
Index : Yes/No
NCC : Yes/No

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<u>KRISHNAN RAMASAMY, J.</u>

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