BEFORE THE MADURAI BENCH OF MADRAS HIGH COURT

Date of Reserving the Order	Date of Pronouncing the Order
22.06.2026	14.07.2026

CORAM :

THE HONOURABLE MR. JUSTICE D.BHARATHA CHAKRAVARTHY

W.P.(MD)Nos.16757 and 16758 of 2025
and
W.M.P.(MD)Nos.12715, 12716, 12718 & 12719 of 2026

M/s.Vindhya Spinning Mills Private Limited,
GSTIN : 33AAACV7885K1ZS,
Represented by its Managing Director
V.Kodiswaran, 4, Geethalaya Building,
Shanmuga Nadar Road,
Sivakasi – 626 123,
Virudhunagar District. ... Petitioner in both the W.Ps.

-vs-

The Assistant Commissioner of CGST and Central Excise,
Sivakasi Division, Central Revenue Building,
1/749, Thiruthangal - Pallapatti Road,
Thiruthangal - 626 130, Sivakasi. ... Respondent in both the W.Ps.

Prayer in W.P.(MD)No.16757 of 2025:- Writ Petition filed under Article 226 of the Constitution of India, to issue a Writ of Certiorarified Mandamus, calling for the records on the file of the respondent in Order No.7/XO0601/2025-Refund dated 17.03.2025 and to quash the same as illegal, arbitrary, wholly without jurisdiction and in violation of Section 54 of the CGST Act, 2017, Rule 89(5) of the CGST Rules and Circular No.125/44/2019-GST, dated 18.11.2019 and direct the respondent to process and sanction the refund of Rs.10,88,231/- along with interest as per the provisions of the CGST Act, 2017 and the applicable rules within a specified time frame, in accordance with the formula prescribed under Rule 89(5) after affording an opportunity of personal hearing within such time as may be directed by this Court.

Prayer in W.P.(MD)No.16758 of 2025:- Writ Petition filed under Article 226 of the Constitution of India, to issue a Writ of Certiorarified Mandamus, calling for the records on the file of the respondent in Order No.12/XO0601/2025-Refund dated 15.05.2025 and to quash the same as illegal, arbitrary, wholly without jurisdiction and in violation of Section 54 of the CGST Act, 2017, Rule 89(5) of the CGST Rules and Circular No.125/44/2019-GST, dated 18.11.2019 and direct the respondent to process and sanction the refund of Rs.16,50,228/- along with interest as per the provisions of the CGST Act, 2017 and the applicable rules within a specified time frame, in accordance with the formula prescribed under Rule 89(5) after affording an opportunity of personal hearing within such time as may be directed by this Court.

For Petitioner in both the W.Ps. : Mr.N.Sudalaimuthu

For Respondent in both the W.Ps. : Mr.R.Gowrishankar
Senior Standing Counsel

COMMON ORDER

These two writ petitions involve identical issues and are, therefore, taken up together and disposed of by this common order.

2. In W.P.(MD)No.16757 of 2025, the petitioner challenges the order dated 17.03.2025. The petitioner's case is that it is engaged in the manufacture of combed cotton yarn. For this purpose, the petitioner purchases raw cotton yarn and undertakes a process involving the application of chemicals and other inputs, resulting in the production of combed cotton yarn.

3. According to the petitioner, the rate of tax applicable to the principal input, namely, raw cotton yarn, is 5%, which is the same as the rate applicable to the output product, *viz.,* combed cotton yarn. However, certain other inputs, such as chemicals, consumables and packing materials, attract GST at rates of 12% and 18%, whereas the output supply is taxable only at 5%. Consequently, owing to the higher rate of tax on certain inputs *vis-à-vis* the output supply, input tax credit accumulates and remains unutilized. The petitioner therefore claims entitlement to a refund of such accumulated unutilized input tax credit under Section 54(3) of the Central Goods and Services Tax Act, 2017 (hereinafter referred to as "the CGST Act").

4. The petitioner's application for a refund for the January 2023 tax period was rejected by the impugned order dated 17.03.2025. Aggrieved thereby, the present writ petition has been filed.

5. W.P.(MD)No.16758 of 2025 arises out of an identical factual matrix. In that case, the petitioner's claim for refund for the tax period March 2023 was similarly rejected, necessitating the filing of the writ petition.

6. The learned counsel appearing for the petitioner submitted that, in respect of an earlier period, namely, July 2022, a refund claim made on the very same basis had been accepted by the authorities, and a refund was sanctioned in proceedings dated 16.07.2024.

7. Drawing the attention of this Court to Section 54(3) of the CGST Act, the learned counsel submitted that clause (ii) expressly entitles the petitioner to a refund when input tax credit accumulates because the rate of tax on inputs exceeds the rate of tax on output supplies. According to the learned counsel, the authorities erred in denying the refund despite the statutory entitlement.

8. The learned counsel further relied on paragraph 54(a) of the Circular dated 18.11.2019, which clarifies that where multiple inputs attract different rates of tax, the formula prescribed under Rule 89(5) of the CGST Rules must be applied irrespective of the individual rates of tax applicable to such inputs.

9. In support of the above contention, reliance was placed on the judgment of the Karnataka High Court in **Indian Oil Corporation Ltd.** v. **Assistant Commissioner of Central Tax**[1], wherein the Court specifically considered Circular No. 135/05/2020-GST and held that the CBIC cannot issue circulars contrary to the provisions of the statute. The Karnataka High Court observed that Section 54(3) concerns the accumulation of unutilized input tax credit and does not prescribe any requirement regarding the comparative percentage of tax applicable to inputs and outputs. On that basis, the Court held that the assessee was entitled to a refund.

10. The learned counsel also relied upon the subsequent decision of the Karnataka High Court in **MK Agrotech Pvt. Ltd.** v. **Union of India**[2], wherein, following the earlier decision, the Court held that the benefit cannot be restricted solely to the principal input and that a refund cannot be denied merely because other inputs also contribute to the accumulation of credit.

11. Reliance was further placed on the decision of the Rajasthan High Court in **M/s. Nainar Industrial Enterprises Limited** v. **Union of**

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1 (2025) 174 taxmann.com 1 (Kar.)

2 (2025) 32 Centax 479 (Kar.)

India[3], where a similar claim for refund under an inverted duty structure was upheld.

12. The learned counsel also referred to the decision of this Court in **M/s. Eveready Spinning Mills Private Limited** v. **The Assistant Commissioner**[4], wherein, after considering the decisions of various High Courts and noting that the impugned circular had been declared *ultra vires*, this Court allowed the writ petition and directed the grant of a refund in similar circumstances.

13. Per contra, the learned Senior Standing Counsel appearing for the respondents, relying on the counter affidavit, submitted that Circular No. 135/05/2020-GST clearly governs the issue. According to him, where the rate of tax applicable to the principal input and the output supply is identical, no claim for refund under an inverted duty structure can be maintained. It was contended that a proper interpretation of Section 54(3)(ii) of the CGST Act would lead to the same conclusion.

3 2023 (11) TMI 209 – Rajasthan High Court

4 2024 (7) TMI 1160 – Madras High Court

14. Referring to paragraph 9 of the counter affidavit, the learned Senior Standing Counsel submitted that the value of outward supplies in the present case substantially exceeds the value of inputs, and that the cost of packing materials and other ancillary inputs is absorbed into the value of the finished goods. Accordingly, the respondents contend that no inverted duty structure exists in the present case. The learned Senior Standing Counsel also sought to distinguish the decisions relied upon by the petitioner on the ground that those judgments arose in different factual contexts and involved different categories of goods.

15. I have considered the rival submissions advanced on either side and perused the materials available on record.

16. Regarding the prayer made, the enabling provision in Section 54(3) of the Act is extracted hereunder for ready reference:

> Section 54 - Refund of Tax:
>
> (1) Any person claiming refund of any tax and interest, if any, paid on such tax or any other amount paid by him, may make an application before the expiry of two years from the relevant date in such form and manner as may be prescribed:
>
> Provided that a registered person, claiming refund of any balance in the electronic cash ledger in accordance with the provisions of sub-section (6) of section 49, may claim such refund in 1 [such from and]

manner as may be prescribed.

(2) A specialised agency of the United Nations Organisation or any Multilateral Financial Institution and Organisation notified under the United Nations (Privileges and Immunities) Act, 1947 (46 of 1947), Consulate or Embassy of foreign countries or any other person or class of persons, as notified under section 55, entitled to a refund of tax paid by it on inward supplies of goods or services or both, may make an application for such refund, in such form and manner as may be prescribed, before the expiry of two years from the last day of the quarter in which such supply was received.

(3) Subject to the provisions of sub-section (10), a registered person may claim refund of any unutilised input tax credit at the end of any tax period:

Provided that no refund of unutilised input tax credit shall be allowed in cases other than---

(i) zero rated supplies made without payment of tax;

(ii) where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies (other than nil rated or fully exempt supplies), except supplies of goods or services or both as may be notified by the Government on the recommendations of the Council.

(Emphasis supplied)

17. Thus, it can be seen that the statute does not make any distinction between major and minor components. It clearly provides that if there is a higher rate of tax on output supplies, the party is entitled to claim a refund of unutilised input tax credit. It is now well settled that the taxing statute has to be construed as such. The catena of decisions quoted by the Learned Counsel for the petitioner lay down that the petitioner is entitled to the relief. In this case, though the rate of tax on cotton yarn is the same, with reference to the chemicals used, the packing and other materials used, there is a higher rate of tax on the output goods, and hence the petitioner is entitled to succeed. The necessary formula for the calculation is also prescribed in Rule 89 (5) of the Rules. The circular dated 18/11/2019 has already been declared unconstitutional, and hence no further relief need be granted regarding the same.

18. As a result,

(i)W.P.(MD)No.16757 of 2025 stands allowed. The impugned Order No. 7/XO0601/2025-Refund dated 17.03.2025 stands quashed. The respondent is directed to process and sanction the refund of Rs. 10,88,231/- along with interest as per the provisions of the CGST Act, 2017, in accordance with the formula prescribed under Rule 89(5), after affording an opportunity of personal hearing, within three months from the date of receipt of the web copy of the Order.

(ii)W.P. (MD) No. 16758 of 2025 stands allowed. The impugned order No. 12/XO0601/2025-Refund dated 15.05.2025 stands quashed. The respondent is directed to process and sanction the refund of Rs. 15,50,228/- along with interest as per the provisions of the CGST Act, 2017, in accordance with the formula prescribed under Rule 89(5), after affording an opportunity of personal hearing, within three months from the date of receipt of the web copy of the Order.

No costs. The connected miscellaneous petitions stand closed.

14.07.2026

NCC : Yes
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To

The Assistant Commissioner of CGST and Central Excise,
Sivakasi Division, Central Revenue Building,
1/749, Thiruthangal - Pallapatti Road,
Thiruthangal - 626 130, Sivakasi.

D.BHARATHA CHAKRAVARTHY, J.

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Pre-deliery Common Order
in
W.P.(MD)Nos.16757 and 16758 of 2025

14.07.2026