

W.P.(MD)No.10232 of 2026

BEFORE THE MADURAI BENCH OF MADRAS HIGH COURT

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DATED : 05.06.2026

CORAM:

THE HONOURABLE MR.JUSTICE D.BHARATHA CHAKRAVARTHY

W.P.(MD)No.10232 of 2026

and

W.M.P.(MD)Nos.8033 and 8035 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.

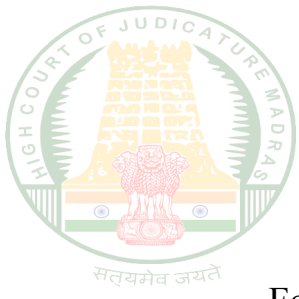
... Petitioner

-vs-

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

... Respondent

Prayer: Writ Petition is filed under Article 226 of the Constitution of India, praying this Court to issue a Writ of Certiorarified Mandamus calling for the records pertaining to the impugned order passed by the respondent in DIN-20260359X00000444CE7 dated 12.03.2026, quash the same and direct 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.



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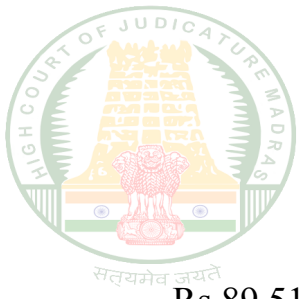
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For Petitioner : Mr.T.Bashyam
For Respondent : Mr.R.Gowri Shankar
Senior Standing Counsel

ORDER

The Writ Petition has been filed seeking issuance of a Writ of Certiorarified Mandamus to call for the records pertaining to the impugned order dated 12.03.2026, quash the same and consequently to direct the respondents to unblock the Input Tax Credit (ITC) of Rs.4,10,94,906/- under the CGST and SGST Acts in the petitioner's Electronic Credit Ledger and permit the petitioner to utilize such credit for discharge of its GST liabilities.

2. The petitioner's case is that it is engaged in manufacturing TMT steel bars and is registered under the CGST and SGST Acts, bearing Registration No. 33AACCV8997L1ZH. A search was conducted at the petitioner's premises on 16.09.2025. Subsequently, another search was conducted on 14.10.2025. Thereafter, the petitioner's Electronic Credit Ledger, to the extent of Rs. 1,04,56,891/- under the CGST and SGST Acts, was blocked on 26.11.2025. Likewise, on 28.11.2025, a further sum of Rs.11,38,867/- under the CGST and SGST Acts was blocked. Again, on 19.12.2025, Input Tax Credit to the tune of

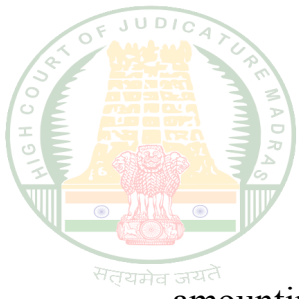


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Rs.89,51,695/- was blocked. Thus, credits aggregating to Rs.4,10,94,906/- were blocked by the respondents.

3. Aggrieved thereby, the petitioner submitted a representation dated 06.01.2026 seeking unblocking of the said credits. However, neither were the blocks removed nor were any orders passed on the petitioner's request. In such circumstances, the petitioner approached this Court by filing W.P.(MD)No.1470 of 2026. By order dated 10.02.2026, after considering the submissions made on behalf of the petitioner and noting the dictum laid down by the Hon'ble Division Bench of this Court in W.A.No.2341 of 2021 dated 16.09.2021, this Court disposed of the writ petition with a direction to the respondents to afford a personal hearing to the petitioner and to take a decision on the petitioner's representation dated 06.01.2026, either by revoking the blocking of the Electronic Credit Ledger or by passing a reasoned and speaking order setting out the reasons for rejecting the petitioner's request.

4. Pursuant thereto, the impugned order dated 12.03.2026 was passed, whereby the respondents rejected the petitioner's request to unblock the credit



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amounting to Rs.4,10,55,788/- lying in the Electronic Credit Ledger and assigned detailed reasons in support of such rejection. Challenging the said order, the present Writ Petition has been filed.

5. *Mr. T. Bashyam*, learned counsel appearing for the petitioner, would submit that the petitioner has been put to grave prejudice on account of the blocking of the Input Tax Credit. According to the learned counsel, the assessment proceedings relating to the transactions in question have not been completed to date. In such circumstances, the use of the expression "fraudulent" by the Revenue is wholly unwarranted and premature.

6. The learned counsel would further contend that even assuming that some of the petitioner's suppliers were not carrying on business at their declared places of business or had availed of or passed on bogus Input Tax Credit, appropriate action ought to be initiated only against those suppliers. The petitioner, being a manufacturer supplying goods to a large number of customers, cannot reasonably be expected to conduct a thorough investigation into the affairs of each and every person with whom it transacts. In any event, the liability arising out of the alleged misconduct of the suppliers cannot be fastened upon the petitioner.

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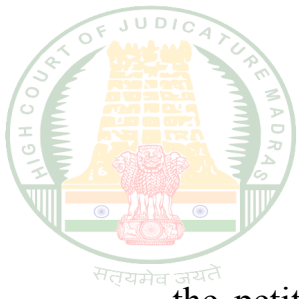
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7. The learned counsel would further submit that the power under Rule 86A of the CGST Rules is akin to a preventive detention, and its invocation has the effect of completely choking the business operations of the petitioner-company. Unless the blockage is relaxed, the petitioner would be unable to carry on its business activities, which may ultimately result in nearly 500 workmen being rendered jobless. The learned counsel would further submit that the petitioner's business has virtually come to a standstill and that the continued blocking of the Input Tax Credit would have a severe cascading effect on its operations and financial stability.

8. The learned counsel also placed reliance upon the judgment of this Court in **Tvl. Guruvammal Tex v. Assistant Commissioner and others**¹, wherein this Court, while directing the assessee to deposit a portion of the disputed amount and directing the assessment proceedings to be completed within a stipulated time, ordered the unblocking of the Input Tax Credit pending such proceedings. Drawing support from the said decision, the learned counsel submitted that a similar order may be passed in the present case as well. It is further submitted that

¹ W.P.(MD) No.21209 of 2025 dated 04.08.2025



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the petitioner is ready and willing to deposit a sum of Rs.40,00,000/- without prejudice to its rights and contentions.

9. Per contra, *Mr. R. Gowri Shankar*, learned Senior Standing Counsel appearing for the Revenue, by placing reliance on the impugned order as well as the counter affidavit, would submit that the present case is not merely one of purchase of goods by the petitioner from suppliers whose credentials were not independently verified. According to the learned Senior Standing Counsel, the Input Tax Credit has been blocked in respect of four specific transactions. Upon inspection and verification of the records, the Department found that there was no corresponding entry or exit of the vehicles mentioned in the invoices at the relevant point of time. Even the CCTV footage maintained by the petitioner does not substantiate the movement of the vehicles in question.

10. The learned Senior Standing Counsel would further submit that the E-Way Bills and other contemporaneous records for the relevant dates reveal circumstances that could not have occurred in the ordinary course of business and clearly indicate manipulation of records. According to the Revenue, the materials



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collected during the course of inspection and investigation demonstrate fraud on the part of the petitioner, not merely an omission or procedural lapse. Detailed reasons have been assigned in the impugned speaking order, and every contention raised by the petitioner has been specifically addressed in the counter affidavit. Therefore, there is no justification for interfering with or relaxing the order passed under Rule 86A of the CGST Rules, which has been invoked to safeguard the interests of the Revenue.

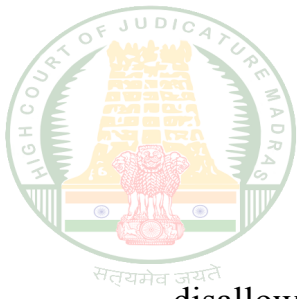
11. In reply, the learned counsel for the petitioner placed reliance upon the judgment of the Karnataka High Court in **K-9 Enterprises v. State of Karnataka²**, wherein the nature and scope of the power under Rule 86A were considered, and relief was granted to the assessee.

12. I have considered the rival submissions made on either side and perused the materials available on record.

13. Rule 86A of the CGST Rules, 2017 empowers the Commissioner, or an officer authorized by him and not below the rank of Assistant Commissioner, to

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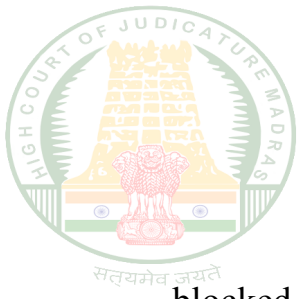
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disallow the debit of an amount equivalent to the Input Tax Credit available in the Electronic Credit Ledger where he has reasons to believe that such credit has been fraudulently availed or is otherwise ineligible for any of the reasons specified therein. Such reasons must be recorded in writing. The restriction imposed under the Rule remains in effect for one year.

14. Upon consideration of the judgments relied upon by both sides, it is evident that the power under Rule 86A, being drastic in nature, must be exercised with due care and caution. A reading of the Karnataka High Court judgment also indicates that there must be adequate material on record to constitute the requisite “reasons to believe” and that the statutory parameters prescribed under the Rule must be strictly satisfied. The assessee is entitled to submit a representation seeking revocation of the blockage, and upon such representation, the authority is obliged to consider it and pass a reasoned and speaking order.

15. As rightly contended by the learned counsel for the petitioner, the consequences of the exercise of power under Rule 86A are serious and therefore warrant strict scrutiny. In the present case, the Electronic Credit Ledger was



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blocked on various dates to an aggregate extent of Rs. 4,10,94,906/-. Earlier, the petitioner had approached this Court by filing W.P.(MD) No.1470 of 2026, wherein this Court, taking note of the dictum laid down in W.A.No.2341 of 2021, directed the respondents to pass a speaking order on the petitioner's representation.

16. A perusal of the Division Bench judgment makes it clear that the authorities are required to pass a speaking order setting out the reasons for not acceding to the request to unblock the credit. In the present case, a perusal of the impugned order reveals that specific reasons have been assigned. With regard to the transactions involving four suppliers, namely, M/s.D.S. Traders, M/s.Ben Global Enterprises, M/s.Vinayaga Traders and M/s.Sri Murugan Traders, the authority has recorded a finding that the said entities could not have physically supplied the goods allegedly purchased by the petitioner. Physical verification of the business premises of those entities revealed vacant premises devoid of the infrastructure necessary for handling TMT rods or scrap materials. The authorities have therefore concluded that they were merely fake bill-trading entities.



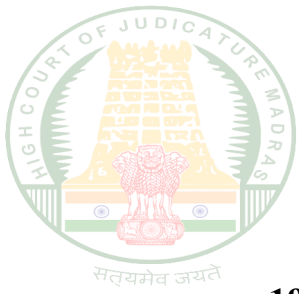
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17. Further, with regard to the petitioner's premises, the CCTV footage corresponding to the alleged dates and times of arrival of the vehicles was examined, and no evidence was found showing the entry or exit of the vehicles purportedly transporting the goods. Consequently, the invoices have been treated as non-genuine. It is also recorded that slips bearing higher serial numbers were shown as having been received on earlier dates, whereas slips bearing lower serial numbers were shown as having been received subsequently. Such reversal of the chronological sequence, according to the authority, cannot be explained as a mere clerical error and is indicative of subsequent manipulation of records to lend legitimacy to otherwise non-genuine transactions.

18. Therefore, having regard to the findings recorded in the speaking order and the materials referred to in the counter-affidavit, this Court is unable to conclude that the respondent committed any error in characterising the transactions as fraudulent and in invoking Rule 86A of the CGST Rules, 2017, to block the Input Tax Credit. In this case, there are adequate materials, and an objective consideration of those materials forms the basis of the respondent's decision to block the credit.

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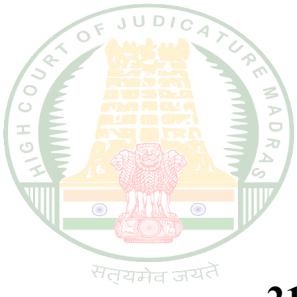


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19. The next contention advanced by the learned counsel for the petitioner is that the blockage is unduly harsh and adversely affects the petitioner's business operations. On a query raised by this Court regarding the petitioner's annual turnover, the learned counsel for the petitioner, across the Bar, submitted that the turnover exceeds Rs.400 crore. In such circumstances, the plea that the entire manufacturing unit would come to a standstill solely on account of the blockage cannot be accepted. Thus, the power is exercised only to block the credit to the tune of the four transactions for which there is credit available and it is not disproportionate and the situation warrants such an exercise of power.

20. At the same time, it is equally true that the Revenue cannot indefinitely continue the blockage without expeditiously completing the consequential proceedings. In response, the learned Senior Standing Counsel submitted that the process of issuing a show cause notice is already underway and that the notice would be issued shortly. Let the proceedings be carried forward without delay and concluded as expeditiously as possible in accordance with the law.



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21. With the above observations, this Court finds no merit in the relief sought in the writ petition. Accordingly, the Writ Petition stands dismissed. No costs. Consequently, the connected Miscellaneous Petitions are closed.

05.06.2026

NCC : Yes
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To:-

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



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D.BHARATHA CHAKRAVARTHY, J.

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