

THE STATE OF ANDHRA PRADESH, ETC.

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v.

MODERN PROTEINS LTD.

APRIL 26, 1994

[K. RAMASWAMY AND N. VENKATACHALA, JJ.]

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Andhra Pradesh General Sales Tax Act, 1957—Central Sales Tax Act, 1956—Entry 29 Schedule-I—Section 8—Tax liability on groundnut protein flour—Whether groundnut protein flour is deoiled cake within entry 29 of Schedule I—Held, No.

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The respondent was a dealer under A.P. General Sales Tax Act. It was dealing in groundnut, deoiled cake, edible protein flour and other products. For the assessment year 1977-78, the CTO determined the tax liability under the Central Sales Tax Act at 4 percent on groundnut protein flour. On appeal, the Asstt. Commissioner concluded that it is deoiled cake within entry 29 of the first schedule to the Act, exigible to sales tax at 1 percent at the point of first sale in the State. The Dy. Commissioner revised the Appellate Order and held that the groundnut protein flour was not deoiled cake and affirmed the order of the C.T.O. The Tribunal upheld the order of Dy. Commissioner. In revision, the High Court held that the groundnut flour is not different and distinct commercial product from the deoiled groundnut cake, and so it is exigible to sales tax under entry 29 of Schedule I.

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In this appeal, the question raised was whether groundnut flour oil is a deoiled cake within entry 29 of Schedule I of the Act.

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Allowing the appeal, this Court

HELD : 1.1. It is true that both deoiled cake and groundnut protein flour contain common properties but the use and purpose of deoiled cake and groundnut protein flour being different and distinct, they cannot be construed to be the same commodity. The groundnut protein flour is an edible protein food for human consumption and is a different commercially marketable entity and thereby is distinct from deoiled cake for animal feed though obtained in course of same process at different stages. Both emerge into different and distinct commodities commercially known

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A for distinct and different use. The groundnut protein flour did not remain part of the genus i.e. deoiled cake but became a new and different entity in commercial parlance. Accordingly, it is exigible to C.S.T. at the relevant time at 4 per cent. [739-D-E]

B *Ganesh Trading Co. v. State of Haryana*, (1973) STC 623; *State of Karnataka v. Raghurama Shetty*, (1981) 47 STC 369; *Rajasthan Roller Flour Mills Association and Anr. v. State of Rajasthan and Ors.*, (1993) 91 STC 408; *Hindustan Aluminum Corporation Ltd. v. State of U.P.*, (1981) 48 STC 411; *Atul Glass Industries (P) Ltd. v. Collector or Central Excise*, (1986) 63 STC 322; *Dy. Commissioner of Sales Tax v. Coco Fibres*, (1991) 80 STC 249; C *State of Tamil Nadu v. P.L. Malhotra*, (1976) 37 STC 319 at 324 and *G.K. Kulkarni v. The State*, (1957) 8 STC 294, relied upon.

D *Dunlop India Ltd. v. Union of India*, [1976] 2 SCR 98; *Porrits & Spencer (Asia) Ltd. v. State of Haryana*, [1979] 1 SCR (545); *Krishan Chander Dutta v. Commercial Tax Officer*, (1994) 1 Scale 711 and *Telengana Steel Industries Ltd. v. State of A.P. & Ors.*, (1994) 1 Scale 894, distinguished.

Modern Candle Works v. Commissioner of Taxes, Assam 71 STC p. 362, referred to.

E CIVIL APPELLATE JURISDICTION : Civil Appeal Nos. 389 of 1988 and 1620/90.

From the Judgment and Orders dated 26-6-84 and 23-4-87 of the High Court of Andhra Pradesh at Hyderabad in Tax Revision Case No. 40 of 1982 and Writ Petition No. 3477 of 1987.

F C. Sitaramiah, TVSN Chari, Nikhil Nayyar and Ms. Promila Chaudhary for the Appellant.

H.N. Salve and Mrs. A.K. Verma for the Respondent.

G The Judgment of the Court was delivered by

H **K. RAMASWAMY, J.** 1. A common question of law relating to assessment of two assessment years, namely, 1977-78 and 1982-83 made under the Andhra Pradesh General Sales Tax Act 6 of 1957, for short 'the Act' and the Central Sales Tax Act, for short the 'C.S.T. Act' arises for decision. The respondent having its factory at Kurnool in A.P. is a dealer

under the Act, in the groundnut, deoiled cake, edible protein flour and A other products. After decortication and passing through expellers of the groundnut seeds, groundnut oil and groundnut oil cakes are obtained. The groundnut oil cake again is subjected to the process in solvent in which "food hexane" is sprayed to obtain solvent ground nut oil and ground nut B deoiled cake. The deoiled cake is then granulated by grinding and the end product which is "groundnut protein flour" is again subjected to heat and steam treatment under controlled and regulated conditions to ensure removal of solvent and brought into a uniform composition. Colouring or C flavouring agents are added to this flour so as to conform to the requirements mentioned in the fifth schedule to the Solvent Extracted oil, deoiled meal and Edible Flour 'Control, Order 1967' for short 'the Order' issued C under s.3 of the Essential Commodities Act.

2. For the assessment year 1977-78, the C.T.O., Kurnool determined D the tax liability in respect of the respondent's net turnover under C.S.T. at 4 per cent on groundnut protein flour. On appeal the Asstt. Commissioner concluded that it is deoiled cake within entry 29 of the first schedule to the Act, exigible to sales tax at 1 per cent at the point of first sale in the State. The Dy. Commissioner exercising *suo motu* power under s.20(2) and s.9(2) D of the Act revised the Appellate Order and held that the groundnut protein flour is not deoiled cake and affirmed the order of the C.T.O. On further revision to the S.T.A.T. the tribunal upheld the order of the Dy. Commis- E sioner. In revision to the High Court, the division bench by the impugned order, T.R.C. 40 of 1982 dated June 26, 1984 held that the deoiled groundnut cake can be both edible as well as inedible and in either case it would fall under entry 29. It is immaterial whether the groundnut cake is F in small pieces in shape or big flat cake pieces. The groundnut flour is not different and distinct commercial product from the deoiled groundnut cake. Therefore, it is exigible to sales tax under entry 29 of schedule I.

3. The question, therefore, is whether groundnut protein flour is a G deoiled cake within entry 29 of Schedule I of the Act. The process of manufacture and the resultant product has already been stated. Its sub- H stance bears reiteration that groundnut seeds obtained after the process of decortication is of a high grade quality, rich in proteins but free from harmful materials processed in the expellar and the outcome are of the groundnut oil and groundnut oil cake. The groundnut oil cake again is pressed through the solvent in which "food hexane" is sprayed resultantly groundnut oil and groundnut deoiled cakes are obtained. The deoiled

- A groundnut cake again is granulated by grinding and is subjected to heat and steam treatment under controlled and regulated condition to ensure removal of solvent and brought into a uniform composition. Colouring or flavouring agents are added to this flour which is named as groundnut protein flour. This is edible flour fit for human consumption. The
- B groundnut cake and deoiled cake are of animal feed. This will be apparent from the order which regulates not only of the production but also sale by licence and the products should conform to the standards prescribed in the respective Schedules. Rule 2(b) defines "deoiled meal" (instead of naming as cake) to mean the residual material left over when oil is extracted by a solvent from any oil-bearing material while "edible flour" is defined in Rule 2(c) to mean the ground material prepared from deoiled meal which is derived from oil cake obtained either by single pressing of good quality edible oilseeds or as a result of direct extraction of oil from such. Rule 3 regulates their production by a licence and Rule 9 regulates sales thereof. Sub-rule (5) of Rule 9 provides that no person shall manufacture, stock for sale, or sell or offer for sale deoiled meal unless in the case
- D of meal intended for use as livestock feed, such deoiled meal conforms to the standards of quality for the appropriate deoiled meal specified in the Fourth Schedule. Similarly sub-rule (6) of Rule 9 is with regard to edible groundnut flour. Clause (iv) therein provides that "the edible flour" conforms the standards of quality specified in the Fifth Schedule, The quality, content and the percentage of the respective deoiled meal and edible
- E groundnut flour have been prescribed in Schedule 4 and Schedule 5 respectively, the details of which are not necessary to specify in this judgment, since across the bar there is no dispute regarding the differences enumerated therein. But the controversy raised across the bar and also found acceptable to the High Court in favour of the assessee, is that as per
- F the analyst's report deoiled cake and groundnut protein flour bear some of common ingredients and contents, whether in edible or in non-edible form it remains the same substance and that therefore, the groundnut protein flour is eligible to sales tax under entry 29 of Schedule I. The contention of Sri Sitarmaiah, learned Senior counsel for the appellant is that deoiled cake is a distinct commodity meant for animal feed while
- G groundnut protein flour admittedly is meant for human consumption. The prices for the former is Rs. 1077 per metric ton while for the latter is Rs. 2500 per metric ton. Food Corporation of India, to whom the assessee had sold the groundnut protein flour, placed orders only as a groundnut protein flour known in the commercial parlance. It is a distinct commodity fit for human consumption. Admittedly it was sold by the assessee for human
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consumption at a higher price treating it is distinct from deoiled cake which was also sold by the assessee for animal feed at Rs. 1077 per metric ton. Thus the two commodities are known in the commercial parlance as different and distinct commercial commodities. Deoiled cake, thereby, is different and groundnut protein flour is altogether another commodity from deoiled cake which does not fall within entry 29 of the first schedule. A
 Sri Harish Salve, the learned Senior Counsel for the respondent on the other hand contended that generic entry "deoiled cake" is exigible to tax under entry 29, be it edible or non-edible meant for human consumption or animal feed so long as it conforms to the generic descriptive entry. It bears no relevance whether it is used for human consumption or animal feed. In other words, the user test in the commercial parlance, bears little relevance. The process of extracting groundnut oil cake from expellar and by solvent process removal of the oil and to make the deoiled cake in big size and thereafter making it into small cakes; the small cake granulated into pieces down the steam, is a continuous process and the commodity remained the same without indicating any separate process. Therefore, groundnut protein flour whether is oiled or deoiled, whether in bulk or small pieces, whether granulated or remained in small pieces make no difference for exigibility to tax. He gave the illustrations of breweries, textiles, petrochemicals and glassware as examples. To appreciate the contentions pragmatically we called upon the assessee to produce the samples of deoiled cakes and groundnut protein flour and gave time till Thursday, i.e. April, 14, 1992. Even till today, i.e. Saturday they were not produced. We also indicated to the counsel that non-production may lead us to draw an adverse inference. B
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4. Having given our anxious and careful consideration and thought to the respective contentions, we are of a considered view that the argument of Sri Salve, though attractive, does not command itself for acceptance. Sales Tax Law is intended to tax sale or supply of different commercial commodities and not to tax the production or manufacture of particular substance out of which the commodities may have been made. As soon as separate commercial commodity comes into existence or emerges from the production or manufacture, it become separately taxable entity or goods for the purpose of sales tax. When commercial goods without change of their identity as such goods or merely subjected to some processing or finishing or are merely joined together, they remain commercially known as same goods, cannot be taxed again in a series of sales, so long as they retain their identity as goods of a particular original type. In F
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- A *Ganesh Trading Co. v. State of Haryana*, (1973) 32 STC 623; this Court considering whether the rice after dehusking remains to be paddy or whether liable to sales tax as rice it was held that it is true that rice was produced out of paddy but it is not true to say that paddy continued to be paddy even after dehusking. It had changed its identity. Rice is not known as paddy.
- B It is misnomer to call rice as paddy. They are two different things in ordinary parlance. Hence quite clearly when paddy is dehusked and rice produced, there has been a change in the identity of the goods. Accordingly it was taxed as rice. In *State of Karnataka v. Raghurama Shetty*, (1981) 47 STC 369, this Court considering the same question gave in illustration whether wheat flour be called wheat and considered the distinction from the economic perspective. This Court laid the test that in the manufacturing, the wheat is converted into flour and thereafter the flour is utilised to manufacture bread. The wheat produced by the farmer was converted by the miller into flour and the baker used the flour to make bread out of it. Thus wheat and flour were consumed to manufacture bread.
- C In *Rajasthan Roller Flour Mills Association and Anr. v. State of Rajasthan and Ors.*, (1993) 91 STC 408, this Court considering whether flour, maida and suji derived from wheat are not wheat within the meaning of s.14 of the C.S.T. Act held that flour, maida and suji are different and distinct goods wheat. In other words, flour, maida and suji are not declared goods. Though flour, maida and suji are derived from wheat but they are not wheat. In *Hindustan Aluminum Corporation Ltd. v. State of U.P.*, 1981 48 STC 411, this Court was to consider whether metal takes within its ambit the fabricated forms of metal "all kinds of metals" including minerals, ores, metals alloys and sheets. This court held that metal was used under s.3A(2) of the U.P. Sales Tax Act, 1948 in its primary sense, i.e., in the form in which it is marketable as the primary commodity and that the primary form and the forms fabricated from the primary form constitute two distinct commodities marketable as such and must be regarded as different commercial commodities. In *Atul Glass Industries (P) Ltd. v. Collector of Central Excise*, (1986) 63 STC 322, the entry in the schedule to the Excise Act came up for consideration. The question was whether "glass" includes "glass mirror" or glassware in the schedule of the Excise Act. This Court applied the functional test and held that the original glass sheet as a result of the process through which it undergoes a complete transformation when it emerges a glass mirror is completely different from the original glass sheet. It was, therefore, held that a glass mirror cannot be regarded

as a glassware. In *Dy. Commissioner of Sales Tax v. Coco Fibres*, (1991) A 80 STC 249, the question was whether coconut fibre is a separate entity from the coconut husk. This Court laid the test thus: "the essential point to remember is whether something is brought into existence which is different from that originally existing, in the sense that the thing produced is by itself a commercial commodity and is capable as such of being sold or supplied. It is not necessary that the stuff or the material of the original article must lose its character or identity or it should become transformed in its basic and essential properties." The test is whether the article which comes into being must be a commercially different from the one from which it is made or manufactured. In that case it was held that coconut fibre is a separate entity from coconut husk in commercial parlance. In *State of Tamilnadu v. P.L. Malhotra*, (1976) 37 STC 319 at 324, this Court held that the purpose of enumeration in a statute dealing with sales tax at a single point in a series of sales would, very naturally, be to indicate the types of goods each of which would constitute a separate class for a series of sales. Otherwise, the listing itself loses all meaning and would be without any purpose behind it. It was held that "Iron and steel" when converted into steel rounds, flats, angles and Bars are separately taxable entity for the purpose of sales tax, each of them form a separate species in each series of sales although they may all belong to the genus iron and steel. In *G.P. Kulkarni v. The State*, (1957) 8 STC 249, relied upon. Hidayatullah, CJ. (as he then was) speaking on behalf of the division bench of the Madhya Pradesh High Court considered the question whether breaking boulders into stone is manufacture within the meaning of s.2(i) of the M.P. Sales Tax Act. It was held that after quarrying if an attempt is made to break them (stone), may be by manual labour, into sizes for sales or gitti, the stone is shaped into an object of a different size. The word 'manufacture' has got various shades of meanings. There may be manufacture of a complicated object like the super-constellation, or there might be manufacture of a simple object like a toy kite.....when they are broken into metal or gitti there is some process, manual though it may be, for the purpose of shaping the stones into another marketable commodity. Accordingly it was held that stone making is a new article exigible to sales tax.

5. In *Dunlop India Ltd. v. Union of India*, [1976] 2 SCR 98 this Court, dealing with levy of customs duty on "U.P. Latex", was called upon to consider the classification of the goods for the purpose of levy of customs

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- A duty, whether "raw rubber". U.P. Latex was an essential component to manufacture tyres. This court held that it is for the court to consider under which item a particular item falls but it be left to the authorities to consider it. A condition of an article is a material factor for classification. In that context this court pointed out that the test of "end use" is irrelevant. Far from helping the assessee it is consistent with the view, this Court expressed in the aforeslated cases. This court said that in interpreting the meaning of an entry the acceptation by the trade and popular meaning should commend itself to the authority. How the people in the trade and commerce understand the meaning in the course of trade is relevant. When an article is classified and put under a particular entry it is not appropriate for : the court to question it. In *Porritts & Spencer (Asia) Ltd. v. State of Haryana*, [1979] 1 SCR 545, the entry 'textiles' for the purpose of Punjab General Sales Tax Act, 1948 in Item 30 of Schedule 'B' whether 'Dryer felts' are textiles. In the context whether they are exempt from sales tax, this Court considered the scope of textiles and held at p.549 F & G that textiles need not be of any particular size of strength or weight. It may be in small pieces or in big rolls. It may be weak or strong, light or heavy, bleached or dyed, according to the requirement of the purchaser. The use to which it may be put is also immaterial and does not bear on its character as a textile. This Court in *Hindustan Ltd.* considered this ratio and held that the ratio therein would not apply to sales tax and common parlance principle is to be applied. Equally the word petro chemical which includes yarn or nylon as a finishing product from petro chemical decided in (130 ITR p. 14) bears no relevance on the facts of the case. The case of *Krishna Chander Dutta v. Commercial Tax Officer*, (1994) 1 Scale p. 711, also does not help the assessee. In the notification issued for the purpose of sales tax it included both black pepper and black pepper powder. Consequently, this Court while considering that both black pepper as well as black pepper powder is used as a commercial product and levy of separate tax was held illegal. The case of *Telangana Steel Industries Ltd. v. State of A.P. & Ors.*, (1994) 1 Scale 894, also is of no assistance to the assessee. In that case also this Court referred to *Modern Candle Works v. Commissioner of Taxes, Assam*, 71 STC P.362, wherein Saikia, CJ. and Hansaria, J., as they were then, considered the decisions involving edible articles and non-edible articles. The High Court of Assam held that whether "there has been addition of external agents thereby making it a 'commodity' different and
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distinct and whether there has been a process of transformation of such a nature and extent as to have resulted in the production of a new article as commodity understood in the market where it is dealt with." When these tests have been satisfied, the court held that the commodity was exigible to sales tax. If the commodity did not result in a new article, the nature, duration and transformation of the original commodity would be immaterial. In *Telangana Steel's* case whether iron wires are separate commercial goods from wire rods from which they were produced, this Court did not decide that question but however concluded that the notification did not allow taxing of the same commodity at a series of sales but only at a single point sales tax. In that view this Court held that the levy of sales tax at more than one stage on same goods was illegal.

6. It is true that the analyst report in this appeal does indicate that both deoiled cake and groundnut protein flour contain common properties but the use and purpose being different and distinct, they cannot be considered to be the same commodity. The groundnut protein flour is an edible protein food for human consumption and is a different commercially marketable entity and thereby is distinct from deoiled cake for animal feed though obtained in the course of same process at different stages. Both emerge into different and distinct commodities commercially known in the common parlance for distinct and different use. Thereby groundnut protein flour did not remain part of the genus i.e. deoiled cake but became a new and different entity known in the commercial parlance. Accordingly it is exigible to C.S.T. at the relevant time at 4 per cent. The appeals, therefore, are allowed. The order of the High Court is set aside and that of the Dy. Commissioner and C.T.O. and STAT are confirmed, but in the circumstances parties are directed to bear their own costs.

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Appeal allowed.