

**IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH 'H': NEW DELHI**

**BEFORE SHRI S. RIFAUR RAHMAN, ACCOUNTANT MEMBER
and
SHRI YOGESH KUMAR U.S., JUDICIAL MEMBER**

**ITA No.4400/DEL/2024
(Assessment Year: 2020-21)**

Juniper Networks Solution India Pvt. Ltd., vs. Assessment Unit,
Unit No.IIa, 06th Floor, DLF Centre, NFAC ITD,
Parliament Street, Connaught Place,
New Delhi – 110 001.

(PAN : AAECJ1345A)

(APPELLANT)

(RESPONDENT)

ASSEESSEE BY : Shri Sachit Jolly, Sr. Advocate
Shri Sandeep Bhalla, Advocate
Shri Anurag Singhal, CA
REVENUE BY : Shri S.K. Jadhav, CIT DR

Date of Hearing : 05.08.2025
Date of Order : 24.10.2025

ORDER

PER S. RIFAUR RAHMAN, ACCOUNTANT MEMBER :

1. This appeal preferred by the assessees is directed against the assessment order dated 27.07.2024 passed by the Income Tax Department, Assessment Unit u/s 143(3) read with section 144C(13)/144B of the Income-tax Act, 1961 (for short ‘the Act’) for Assessment Year 2020-21 pursuant to the directions of the Dispute Resolution Panel u/s 144C(5) of the Act.

2. Brief facts of the case are, the assessee company, M/s Juniper Networks Solution India Private Limited is engaged in the business of distribution, sales, marketing and customer support services of internet protocol secure networking solutions, equipment and software. The assessee imports networking equipment from an overseas entity and further is engaged in distribution, sales, marketing, customer support services of internet protocol secured networking solutions, equipment and software embedded in such imported equipment. The Company is a Limited Risk Distributor for its Associated Enterprise viz. Juniper Networks International BV (JNIBV). It imports networking equipments and related spares/ consumables from JNIBV for onward selling either in the Indian Market or other countries through Merchant Trading Transactions.
3. The Company was incorporated on 11th December 2017 as a Limited Risk Distributor for Juniper Networks International BV (JNIBV) for the purpose of sale of networking equipment in India. Consequently, the assessee purchases goods (both for the purpose of distribution and as spares) for onwards distribution to third party customers. Additionally, through Merchant Trading Transactions, the Company also undertook Merchant Trading Transactions (MTT) which involves physical shipment of goods from one foreign country to another foreign country without the goods entering into the Domestic Tariff Area (of India). This is only 2nd

year of operations in India by the Company.

4. The assessee company has filed its return of income on 12.01.2021 vide acknowledgement no. 204286211120121 declaring total loss of Rs.49,78,97,850/-and deemed total income u/s 115JB at Rs.0/-. The case of the assessee was selected for scrutiny assessment under CASS, therefore notice u/s 143(2) of the Income-tax Act, 1961 was issued to the assessee company vide notice bearing DIN: ITBAIAST/S/143(2)/2021-22/1033793662(1) dated 29.06.2021. The return of the assessee was selected for scrutiny through CASS on the following issues :–

S.No.	Issue
i.	Claim of Any Other Amount Allowable as Deduction in Schedule BP
ii.	Imports
iii	International Transactions

5. A reference u/s 92CA(1) of the Act, was made to the TPO on 29.12.2021 in respect of the international transactions/specific domestic transactions reported in Form No. 3CEB filed by the assessee company. Notice u/s. 142(1) of the Act alongwith questionnaire was also issued and duly served upon the assessee.

6. The case was referred to TPO on the basis of information that the assessee has reported international transactions reported in the form no

3CEB. The profile of the assessee was reproduced by the TPO in his order at page of 1 of the order and the same are also reproduced by the AO, which had already reproduced in brief facts above. We also observed that the TPO himself observed that the assessee is doing trading activity, in the second limb, it is providing maintenance /warranty services in India. He further observed that both the business functions are having different nature as well as expenses and profit. He rejected the claim of the assessee that they are inextricably linked. The assessee has benchmarked for margin on entity level for TNM Method, which included profit from trading and service businesses. The TPO rejected the claim and however accepted the TNMM. He proceeded to split the trading segment results from the combine results as under:

		Amount (in Cr.)
	As per assessee (Trading + Service segment)	As per TPO (Trading segment)
Revenue from operations	362.75	219.18
Interest income under effective interest method on loans/security deposit	0.21	
Operating Revenue (Sales)(A)	362.75	219.18
Expenses :		
Cost of spares and components consumed	72.7	
Purchase of traded goods	174.69	174.69
(Increase)decrease in inventories of traded goods	-4.34	-4.34
Employee benefit expenses (allocated based on revenue from operations)	58.54	35.4
Depreciation expenses	4.32	4.32
Interest on lease liabilities	1.27	
Other expenses (allocated based on revenue from operations)	44.71	27.03

Operating expenses (B)	351.89	237.1
Operating profit (C = A – B)	10.86	-17.92
Operating profit/sales (D = C/a)		-8.18%

7. We observed that in the above chart, the TPO has split the income and expenses on the basis of trading segment and allocated the cost on the basis of revenue from operation (particularly employee cost and other expenses). He determined the OP/Sales at -8.18%. He observed that the assessee is incurring losses in its trading segment which is basically based on purchases and supply from its AEs. The assessee was issued notices to submit the details, the contents of the notices are reproduced at page 4 and 5 of TPO order. He analysed the weighted average OP/Sales declared by the assessee in FY 2017-18 to 2019-20, which are of 12 comparable, applied the filters and narrowed down to the 7 comparables, determined the median of 6.62%. The assessee was asked to submit their views to finalise the bench marking. After considering the various objections of the assessee on the segment carved out, ALP methodology, allocation key proposed, TNMM over RPM, application of quantitative filters and arithmetic error in margins, working capital adjustments and risk adjustments and comparable selection. After considering the submissions of the assessee and method adopted by the assessee for segment results and all other objections raised by the assessee, TPO rejected the same and

finally he determined the OP/OR of comparable for trading segment at 2.27% and finally proposed ALP adjustment of Rs. 16,86,93,204/-.

8. Aggrieved with the above order, the assessee filed objections before the DRP and filed their grounds of objections, also filed detailed submissions. After considering the same, the DRP has sustained all the findings of the AO/TPO except allowed the working capital adjustment to be computed on the adjusted margins in accordance with the OECD guidelines. Accordingly, the TPO revised the weighted average adjusted mean of the comparable after allowing the working capital adjustments, which is reproduced at page 2 of the order giving effect to the DRP order, the median determined by him is 8.12% in comparison to the 35th and 65th percentile. TPO found that the operating margin of the assessee is within the ALP, accordingly, the adjustment was reduced to nil.
9. Against the order of Final assessment order and directions of DRP on the issue of rejecting the various objections raised before the DRP, which DRP had sustained the findings of TPO and given relief only on the issue of working capital adjustment, assessee filed the following grounds of appeal :-

“1. On the facts and circumstances of the case and in law, National Faceless Assessment Centre- Assessment Unit- Income Tax Department ('the Ld. AO') erred in assessing the income of the Appellant at Rs.66,65,91,054 as against returned income of Rs.49,78,97,850.

The Appellant prays that the Ld. AO be directed to accept the returned income.

2. On the facts and circumstance of the case, the Ld. AO erred in making an adjustment of Rs.16,86,93,204 on account of TP adjustment without appreciating the fact that the aforesaid adjustment has been deleted by the Learned DC/ACIT TP Delhi 2(2)(1) ('Ld. TPO') in the order passed to give effect to the Dispute Resolution Panel (DRP) directions.

The Appellant prays that the Ld. AO be directed to delete the adjustment of Rs.16,86,93,204.

3. On the facts and circumstances of the case and in law, for determination of arm's length price ('ALP'), the Ld. DRP erred in upholding action of Ld. Assessing Officer/ Ld. TPO in carving out alleged trading segment by not accepting the inextricably linked i.e., integrated business model of the Appellant and rejecting the application of Transactional Net margin Method (TNMM) at entity level.

The Appellant prays that the Ld. Assessing Officer/ Ld. TPO be directed to accept the inextricably linked business model of the Appellant and also accept application of TNMM at entity level.

4. Without prejudice, even if alleged trading segment is casted, on the facts and circumstances of the case and in law, the Ld. DRP has erred in upholding action of the Ld. AO/Ld. Ld. TPO in:

- allocating the indirect I common expenses in proportion of the revenue of alleged trading segment and alleged service segment
- in disregarding and rejecting the allocation key based on the gross profit of the alleged trading segment and alleged service segment

The Appellant prays that the Ld. Assessing Officer/ Ld. TPO be directed to accept the allocation key based on the gross profit of the alleged trading segment and alleged service segment for allocating indirect/common expenses.

5. Without prejudice, even if alleged trading segment is casted, on the facts and circumstances of the case and in law, the Ld. DRP has erred in upholding action of the Assessing Officer/Ld. TPO in:

- not considering Resale Price Method ('RPM') as the most appropriate method for benchmarking the international transaction related to purchase of traded goods under the alleged trading segment.

The Appellant prays that the Ld. Assessing Officer/ Ld. TPO be directed to accept the RPM as the most appropriate method for benchmarking the international transaction related to purchase of traded goods under the alleged trading segment.

6. On the facts and in the circumstances of the case and in law, the Ld. DRP has erred in upholding the action of the Ld. AO / Ld. TPO in not granting risk adjustment to the profit Level Indicator ('PLI') of comparable companies as required by Rule 10B(3) read with Rule 10B(1)(e) of Income-tax Rules, 1962 ('the Rules').

7. On the facts and in the circumstances of the case and in law, the Ld. AO has erred in initiating penalty proceedings under section 270A of the Act.

The Appellant prays that the Ld. AO be directed to drop the penalty proceedings under section 270A of the Act.

Each Ground is without prejudice to and independent of each other.”

10. At the time of hearing, ld. AR submitted that the assessee is mainly involved in the import and distribution business, it is involved only in distribution and not a service provider. In this regard, he brought to our notice recording of nature and profile of the assessee at page 1 of TPO order and also para 5.8 of the DRP order where they have clearly recorded the FAR analysis. Further he brought to our notice the TP study submitted by the assessee, which is placed at pages 23 to 34 of the paper book. With reference to above material on record, he submitted that the lower authorities have recorded the nature of service segment, the assessee provides after sale services in the form of AMC through its own employees. After recording the same, they observed that these are two legs of transactions form separate class of transactions involve different levels of risk involved. He brought to our notice the observations of the DRP that under TP regulations, the bench marking should be done on transaction to transaction basis unless the transactions are so closely inter-

linked and continuous that separate evaluation of the same is not possible. Whereas in the given case, the same are fundamentally different, it can be segregated. Therefore, he sustained the findings of TPO and ld. DRP also rejected all other objections raised by the assessee.

11. He further brought to our notice agreement placed at page 578 of the paper book. He submitted that as per the above agreement and recital, the assessee wishes to market and distribute software and customer services, avail services as defined in clause 1.4 of the agreement from the AE. He also brought to our notice nature of customer services mentioned in clause 1.4. He submitted that the functions of the assessee company are intertwined with the trading segment. Further he brought to our notice page 591 of the paper book, which is the letter written to TPO indicating that both products and services were procured by the assessee from its AE and no payment was made by the assessee towards procurement of services.
12. On the other hand, Ld DR heavily relied on the detailed findings of lower authorities.
13. Considered the rival submissions and material placed on record. We observed that the assessee is a wholly owned subsidiary of Juniper Network International B.V, Netherlands. It is part of a network of affiliated companies engaged in the business of designing, developing,

manufacturing, marketing and distribution of the products and customer services as per clause 1.4 of the mutual agreement. For the sake of brevity, it is reproduced below:

“1.4 “Customer Services” means :

- (a) Product maintenance services (including any of the following or any combination thereof: distribution of Software Releases and certain upgrades, remote technical services, repair services, and technical support for diagnosis and remediation of Hardware, Software or system defects) in the form of offerings and terms and conditions authorised under policies established by Juniper or its Affiliates from time to time;
- (b) professional services (including pre-defined and custom services to address a broad range of engagements including, but not limited to, product installation and configuration, network-level design, implementation and monitoring);
- (c) educational services (including a wide variety of training courses and technical certification programs) ;
- (d) resident engineering services (including, but not limited to, analysing network configurations, assisting with network inventory tracking and management to support the network, testing product features and functionality, providing technical and product workshops, troubleshooting the network and supporting operations, developing network and equipment operating procedures, evaluating technical specifications for interoperability, and assisting in the definition of key performance indicators for the network and services); and
- (e) such other services provided by JNSIPL to the Customer.”

14. Further as per the software and service agreement, the assessee is mainly engaged in marketing and customer service as per the mutual agreements which include the warranty extended on the product.

15. We observed that considering the fact that the assessee is involved in the trading of the products supplied by the AEs and also having service facility, the tax authorities divided the business of the assessee in two segments and reworked the segmental results by allocation on the basis of revenue factor. In our view, they have completely overlooked the fact that the core business is trading and the customer services are interconnected to it. Most of customer services are provided with the assistance of AEs. In case the trading results has to be bench marked when the trading is complete as soon as the products are sold to the Indian customers whereas it is inter connected with the after sales customer services as defined in the clause of 1.4 of the mutual agreement. Merely because the assessee has facility to provide customer services, it cannot be segregated without analysing the key functions which are inter dependent on each other. In our view, the sole existence of the assessee company depends upon the trading activities without that there is no business for the service segment. It is like egg or chicken story.

16. Even for the argument, if we segregate the segments on the basis of activities, we observed that the TPO had simply divided on the basis of revenue without considering the fact that the majority of the service segment is established only for the purpose of dealing with the after sales services. If that be the case, at least he should have considered for

allocating the manpower and other cost on the basis of 80:20. This would have given the result appropriate.

17. Coming to the issue of revenue recognition, we observed that the assessee recognises the revenue on the basis of below:

“f. Revenue from contracts with customers

Revenue is recognized when promised goods or services are transferred to customers In an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process. (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price. (4) allocate the transaction price, and (5) recognize revenue when or as the Company satisfies a performance obligation as further described below.

Identify the contract with a customer: The Company generally considers a sales contract or agreement with an approved purchase order as a customer contract provided that collection is considered probable, which is assessed based on the creditworthiness of the customer as determined by credit checks, payment histories, and/or other circumstances. The Company combines contracts with a customer if contracts are negotiated with a single commercial substance or contain price dependencies

Identify the performance obligations in the contract: Product performance obligations include hardware and software license and service performance obligations include maintenance, software post-contract support, training, and professional services. Certain software licenses and related post-contract support are combined into a single performance obligation when the maintenance updates are crucial to the continued functionality of the software.

Determine the transaction price: The transaction price for the Company's contracts with its customers consists of both fixed and variable consideration provided it is probable that a significant reversal of revenue will not occur when the uncertainty related to variable consideration is resolved. Fixed consideration includes amounts to be contractually billed to the customer while variable consideration includes estimates for rights of return, rebates, and price protection, which are based on historical sales returns and price protection credits, specific criteria outlined in rebate agreements, and other factors known at the time. The Company generally invoices customers for hardware, software licenses and related maintenance arrangements at time of delivery, and professional services either up front or upon meeting certain milestones. Customer invoices are generally due within 30 to 90 days after issuance. The Company's contracts with customers typically do not include significant financing components as the period between the transfer of performance obligations and timing of payment are generally within one year.

Allocate the transaction price to the performance obligations in the contract: For contracts that contain multiple performance obligations, the Company allocates the transaction price to the performance obligations on a relative standalone selling price basis. Standalone selling prices are based on multiple factors including, but not limited to historical discounting trends for products and services, pricing practices in different geographies and through different sales channels, gross margin objectives, internal costs, competitor pricing strategies, and industry technology lifecycles.

Recognize revenue when or as the Company satisfies a performance obligation: Revenue for hardware and certain software licenses, are recognized at a point in time, which is generally upon shipment or delivery. Certain software licenses combined with post-contract support are recognized over time on a rateable basis over the term of the license. Revenue for maintenance and software post-contract support is recognized over time on a rateable basis over the contract term. Revenue from training and professional services is recognized over time as services are completed or rate ably over the contractual period of generally one year or less.”

18. From the above, it is relevant to notice the identification of the performance obligations in the contract, it says “Product performance obligations include hardware and software licenses, and service performance obligations include maintenance, software post-contract, training and professional services. Certain software licenses and related post-contract support are combined into a single performance obligation when the maintenance updates are critical to the continued functionality of the software.” From the above revenue recognition of the assessee company indicate that the trading and services performances are intertwined and cannot be separated. The action of the revenue is wrong to divide the segments into two and allocate the cost on the basis of revenue of segment without properly analysing the nature of functions

and intertwined services transaction with the products marketed by the assessee with the assistance of original manufacturer and actual services provider, in this case, JNI BV, Netherland. Therefore, we are in agreement with the submissions of the assessee in this case and you cannot divide the peculiar nature of the trading business of the assessee with the services provided by it to the Indian customers with the assistance of its AE. In the result, ground no 3 raised by the assessee is allowed in its favour.

13. The other grounds are not adjudicated at this stage and kept them open.
14. In the result, appeal filed by the assessee is allowed in the above terms.

Order pronounced in the open court on this 24th day of October, 2025.

Sd/-
(YOGESH KUMAR U.S.)
JUDICIAL MEMBER

s/-
(S.RIFAUR RAHMAN)
ACCOUNTANT MEMBER

Dated: 24.10.2025
TS

Copy forwarded to:

1. Appellant
2. Respondent
3. CIT
4. CIT(Appeals).
5. DR: ITAT

ASSISTANT REGISTRAR
ITAT, NEW DELHI