

SECURITIES AND EXCHANGE BOARD OF INDIA
FINAL ORDER

**UNDER SECTIONS 11(1), 11(4), 11(4A), 11B(1) AND 11B(2) OF THE SECURITIES AND
EXCHANGE BOARD OF INDIA ACT, 1992**

In respect of:

Noticee No.	Noticee name	PAN
1.	Brightcom Group Ltd.	AAACL5827B
2.	Mr. M. Suresh Kumar Reddy	AOOPM8696J
3.	Mr. Vijay Kancharla	ATNPK0320K
4.	Mr. Yerradoddi Ramesh Reddy	AAHPY4543K
5.	Mr. Y. Srinivasa Rao	AAEPY9390B

(The aforesaid entities are hereinafter individually referred to by their respective names / Noticee nos. and collectively as “Noticees”)

In the matter of Brightcom Group Ltd.

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A. SUMMARY

1. Securities and Exchange Board of India (“SEBI”) passed an Interim Order cum Show Cause Notice dated April 13, 2023 against Brightcom Group Ltd (“BGL” / “Brightcom” / “Company”) and its promoters/ directors alleging misstatements and accounting irregularities in BGL’s financial statements for Financial Years (FYs) from 2014-15 to 2019-20. Further, it was alleged that accounting irregularities and other disclosure violations were part of a scheme to defraud investors which enabled promoters to offload their shares at elevated prices.

B. BACKGROUND

2. Pursuant to receipt of certain complaints during the period October 2020 to March 2021 *inter alia* alleging irregularities in the financial statements of BGL, a listed company, SEBI initiated an investigation into the affairs of the Company for the period covering Financial Years (FYs) from 2014-15 to 2019-20 (“Investigation Period”), with a special focus on impairment of assets, so as to ascertain possible violations, if any, of the provisions of the Securities and Exchange Board of India Act, 1992 (“SEBI Act”) and regulations thereunder and the Securities Contracts (Regulations) Act, 1956 (“SCRA”).
3. Brightcom claims to be a leading global provider of comprehensive online or digital marketing services to direct marketers, brand advertisers, and marketing agencies. The Company is divided into three major divisions: (i) media (ad-tech and digital marketing), (ii) software services, and (iii) future technologies, and has subsidiaries and operations in various geographies including in the US, Israel, Latin America, Western Europe and Asia

Pacific regions (25 office locations and 1700 employees and consultants). The Company is headquartered in Hyderabad, India. As per the Company's Annual Report for the FY 2019-20, it has 2 Indian subsidiaries and 14 overseas subsidiaries. The present promoters of the Company had taken over the erstwhile listed company, Lanco Global Systems Ltd., and amalgamated it with an unlisted company, Ybrant Digital Ltd., through a scheme of amalgamation approved by the Hon'ble High Court of Andhra Pradesh dated April 11, 2012. Pursuant to the same, the Company's name was changed from "LGS Global Ltd." to "Ybrant Digital Ltd." with effect from June 14, 2012. Later, the Company's name was changed to "Lycos Internet Ltd." with effect from October 07, 2014 and then to "Brightcom Group Ltd." with effect from September 05, 2018.

4. Considering the preliminary findings of overstatement of profits by adopting wrong accounting, and non-co-operation of the Company, the matter was converted to detailed investigation and Investigating Authority was appointed. Further, a Forensic Auditor was appointed for conducting the forensic audit of the consolidated financial statements of the Company for six FYs 2014-15 to 2019-20 with a special focus on impairment of assets. The Forensic Auditor submitted his report on December 08, 2022.
5. After investigation, SEBI passed an Interim Order cum Show Cause Notice dated April 13, 2023 ("**Interim Order cum SCN**" / "**Interim Order**" / "**SCN**"), against the Company, and its Directors and Chief Financial Officer (CFO) observing their acts to be in violations of securities law. In the Interim Order cum SCN, the Noticees were called upon to show cause why inquiry should not be held and penalty should not be imposed under the SEBI Act and SCRA, for the alleged violations of SEBI Act, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**LODR Regulations**"), SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 ("**PFUTP Regulations**"), SEBI (Prohibition of Insider Trading) Regulations, 2015 ("**PIT Regulations**"), Listing Agreement read with provisions of SCRA.

C. FINDINGS OF THE INVESTIGATION AS RECORDED IN THE INTERIM ORDER

6. Non-compliance with Accounting Standards by BGL:

Table no. 1

#	Alleged violation	Non-compliance with accounting standard	Provisions violated
1.	R&D costs were wrongly capitalized: BGL wrongly capitalized the expenditure incurred during the research phase and research-cum-development phase of the creation of intangible assets.	AS 26 (FY 2014-15 & 2015-16) read with Ind AS 38 (FY 2016-17 to FY 2019-20).	Clauses 49 (l)(C)(1)(a) and 50 of the erstwhile Listing Agreement for the FY 2014-15 and regulation 4(1)(a), (b), (c), (d) (e), (g), (h), (i), (j), 4(2)(e)(i), 33(1)(c) & 48 of LODR Regulations for the FYs 2015-16 to FY 2019-20.
2.	<u>Not recognizing impairment loss in a timely manner with respect to its investment in subsidiary.</u> - INR 411.76 crores recognized in FY 2018-19. - Rs 868.3 crores recognized in FY 2019-20.	Ind AS 36 (FYs 2018-19 & 2019-20)	Regulation 4(1)(a), (b), (c), (d) (e), (g), (h), (i), (j), 4(2)(e)(i), 33(1)(c) & 48 of LODR Regulations.
3.	<u>Recognizing impairment of assets under "Other Comprehensive Income" instead of recognizing it in profit and loss.</u>	Ind AS 36 (FY 2018-19, FY 2019-20)	
4.	<u>Transferring "Intangible Assets under development" and "Capital Work-in-Progress" to "Intangible Assets" once a year instead of as and when the asset recognition criteria is met.</u>	AS 26 (FY 2014-15 & 2015-16) and Ind AS 38 (FY 2016-17 to FY 2019-20)	Clauses 49 (l)(C)(1)(a) and 50 of the erstwhile Listing Agreement for the FY 2014-15 and regulation 4(1)(a), (b), (c), (d) (e), (g), (h), (i), (j), 4(2)(e)(i), 33(1)(c) & 48 of LODR Regulations for the FYs 2015-16 to FY 2019-20.

7. Violations of LODR Regulations by BGL:**Table no. 2**

#	Alleged violation	Provisions violated
1.	Not disclosing the fact of the initiation of forensic audit to stock exchanges.	Regulation 30 (1), (2) and (6) read with Clause 17 Schedule III Para A of Part A LODR Regulations.
2.	Submitting incorrect and misleading quarterly shareholding pattern to the stock exchanges for 31 out of 34 quarters during the period March 31, 2014 to June 30, 2022.	Clause 35 of the erstwhile listing agreement (upto November 30, 2015) and Regulation 4(1) (c), (h), 31(1)(b) of LODR Regulations read with SEBI circular no. CIR/CFD/CMD/13/2015 dated November 30, 2015 (w.e.f December 01, 2015).
3.	Issuing a false and misleading press release on April 10, 2018 w.r.t appointment of internal auditor.	Regulation 4(1)(c) & (h) of LODR Regulations.
4.	Did not carry out limited review of unaudited results for the quarters ending June 30 2019, September 30, 2019, December 31, 2019 and March 31, 2020.	Regulation 33(3)(h) of LODR Regulations.
5.	Did not ensure that the constitution of its Audit Committee w.e.f October 01, 2014 is in accordance with regulatory requirements.	Regulation 17(1) and 18(1)(b) of LODR Regulations.
6.	Did not appoint at least one independent director from its board as a director on the board of directors of its three unlisted material subsidiaries.	Regulation 24(1) of LODR Regulations.
7.	Did not publish the standalone financial statements of its subsidiaries on its website.	Regulation 4(1)(d),(g),(h),(i),(j) & 46(2) LODR Regulations.
8.	Did not make disclosure in respect of impact of introduction of GDPR on the functioning of the company.	Regulation 30 r/w clause 7 of para B of Part A of Schedule III of LODR Regulations.
9.	Did not make disclosure in respect of introduction of GDPR as "Threats, Outlook, Risks or Concerns" in Management Discussion and Analysis.	Regulation 34(2)(3) & Schedule V of LODR Regulations.

8. Violation of SCRA and PFUTP Regulations:

It was alleged that Noticees 2 to 4 were liable for all the above contraventions of BGL and resulted in violation of section 21 of SCRA and regulation 3(c), 3(d), 4(1), 4(2),(f)(k)(r) of PFUTP Regulations read with section 12A (b) & (c) of SEBI Act by Noticees 1 to 5.

9. Additional provisions violated by the Directors of BGL:

Table no. 3

#	Name of the Director	Designation	From	To	Provisions violated
1.	Mr. M. Suresh Kumar Reddy	Chairman and Managing Director (CMD) & Promoter	26/06/2012	Continuing *	Regulation 3(5) of SEBI (PIT) Regulations 2015 (for failure to maintain structured digital database under PIT Regulations) . Clauses 49 (I)(C)(1)(a), 49(I)(D)(1)(b), (2)(b)(h) and 50 of the erstwhile listing agreement (For the FY 2014-15) and Regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2)(7)(8), 4(2)(f)(iii)(1),(2),(3),(6),(7),(12) of LODR Regulations (For the FYs 2015-16 to FY 2019-20) (for failure to perform obligations as directors) . Additional provision attracted by Mr. M. Suresh Kumar Reddy: Clause 49(IX) of the erstwhile Listing Agreement (For the FY 2014-15) & Regulation 17(8) of SEBI (LODR) Regulations, 2015 (For the FYs 2015-16 to FY 2019-20) (for being the signatory to CEO/CFO certification) . Additional provision attracted by Mr. Vijay Kancharla: Regulation 18(3) read with Part C of Schedule II of the LODR Regulations (for failure to perform duties as member of audit committee) .
2.	Mr. Vijay Kancharla	Whole-Time Director (Promoter)	26/06/2012	Continuing *	Regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2)(7)(8), 4(2)(f)(iii)(1),(2),(3),(6),(7),(12) of SEBI (LODR) Regulations, 2015 (for failure to perform duties as directors) . Clause 49III D of erstwhile Listing Agreement and Regulation 18(3) read with Part C of Schedule II of the LODR Regulations (for failure to perform duties as member of audit committee) . Regulations 4(2)(f)(i)(2) of LODR Regulations r/w Section 27 (2) of the SEBI Act and Section 24 of SCRA (for failure to perform duties as CFO) .
3.	Mr. Yerradoddi Ramesh Reddy	Independent Director	26/06/2012	09/05/2016	Regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2)(7)(8), 4(2)(f)(iii)(1),(2),(3),(6),(7),(12) of SEBI (LODR) Regulations, 2015 (for failure to perform duties as directors) . Clause 49III D of erstwhile Listing Agreement and Regulation 18(3) read with Part C of Schedule II of the LODR Regulations (for failure to perform duties as member of audit committee) . Regulations 4(2)(f)(i)(2) of LODR Regulations r/w Section 27 (2) of the SEBI Act and Section 24 of SCRA (for failure to perform duties as CFO) .
		Executive Director	09/05/2016	20/04/2017	
		Group CFO	09/05/2016	08/05/2021	

*- continuing as on date of the interim order cum SCN dated April 13, 2023

10. Provisions violated by Mr. Y. Srinivasa Rao, CFO of BGL:

Table no. 4

#	Name of the KMP	Designation	From	To	Provisions violated
1.	Mr. Y. Srinivasa Rao	Chief Financial Officer	01/01/2015	25/03/2022	Regulations 4(2)(f)(i)(2) of LODR Regulations (for failure to perform duties as CFO) . Clause 49(IX) of the erstwhile Listing Agreement (For the FY 2014-15) & Regulation 17(8) of LODR Regulations (For the FYs 2015-16 to FY 2019-20) (for being the signatory to CEO/CFO certification) .

D. REPLIES, HEARING AND INSPECTION

11. Reply of Brightcom Group Ltd. (Noticee 1) submitted *vide* emails dated May 07, 2023, October 14, 2023 and November 10, 2023 is summarized below as follows:

(a) Violation of principles of natural justice

- (i) The investigation period is up to March, 2020, however, the Interim Order cum SCN has been passed in April 2023.
- (ii) No case has been made out to show the urgency as to why the interim directions were necessary.
- (iii) Reliance is placed on following decisions of Hon'ble SAT:
 - (a) Arshad Warsi & Ors. vs SEBI, order dated March 27, 2023;
 - (b) North End Foods Marketing Pvt. Ltd. vs. SEBI (Appeal no. 80 of 2019), order dated March 12, 2019.
 - (c) Zenith Infotech Ltd. and Ors., order dated July 23, 2013.

(b) BGL has not violated PFUTP Regulations

- (i) The allegations pertaining to violation of PFUTP Regulations against BGL are general and vague in nature without making out any specific case containing necessary ingredients required to constitute violations of regulation 3(c), 3(d), 4(1) and 4(2)(f), (k) & (r) of PFUTP Regulations read with 12A(b) & (c) of SEBI Act. BGL has not violated any provisions of PFUTP Regulations read with 12A (b) & (c) of SEBI Act, it has only violated certain provisions of LODR Regulations.
- (ii) Interim Order cum SCN has failed to bring out findings regarding any "inducement" which is required to constitute "fraud" under PFUTP Regulations.
- (iii) Fraudulent trades should have firmer ground to stand upon, and a higher degree of probability must exist.

(c) R&D costs were not wrongly capitalized

- (i) All the accounting policies were being followed since inception. The consistency was maintained in the accounting policies since BGL has subsidiaries across the globe and a minor change in any policy could have cascading effect. The accounting policy followed by BGL is also followed by its peers due to peculiarity of the business. The same is also disclosed in the annual report on the regular basis.

- (ii) Further, the board of BGL carefully reviews financial statements to ensure that they are prepared in accordance with the applicable accounting standards and regulations. They also ensure that the financial statements are audited by independent auditors in a timely and accurate manner.
- (iii) BGL invested heavily in R&D to enhance their product and platform offerings. BGL had capitalized its R&D costs, recognizing them as intangible assets in its balance sheet. This decision was based on the managements' judgment that the R&D expenses incurred are likely to generate future economic benefits for the company. By capitalizing its R&D costs, BGL amortized these expenses over the assets useful life, providing a more accurate reflection of its financial performance and ensuring that its financial statements accurately reflect the economic reality of the business.
- (iv) In the IT product development industry, it is conventional to consider the combined R&D cost as the product development cost since these phases cannot be segregated. As a result, it is difficult to distinguish between the two phases explicitly, and any compartmentalization between them would be arbitrary and unnatural. The company has 14 subsidiaries located in various countries, each with their accounting standards. The capitalization has been done in each country as per the applicable local law. As the parent company of these subsidiaries, BGL presents only the consolidated financials without changing the accounting standards as applicable in each local subsidiary.
- (v) BGL's management capitalized its R&D costs because they believed that the expenses incurred during its product development, including the R&D phases, met the criteria for capitalization under IAS 38.
- (vi) IAS 36 and Ind AS 36 both deal with impairment of assets. Similarly, IAS 38 and Ind AS 38 both deal with intangible assets. Accordingly, there is no difference between IAS 38 and Ind AS 38 or erstwhile AS - 26 with regard to the accounting treatment of R&D costs. Hence, the management of the Company did not identify any significant GAAP differences while converting the financial statements into Ind AS. Accordingly, there is no non-compliance of Ind AS 38 or AS 26 with regards to the said matter.
- (d) Impairment loss with respect to BGL's investment in subsidiary was disclosed in annual report**

- (i) The impairment of assets of INR 411.76 crores and INR 868.30 crores are that of the subsidiaries of the company, which has been recognised in the respective financials of the subsidiaries. This impairment will not directly impact the profit and loss account of BGL. It is clear that there is no reduction in the value of investments made in the subsidiaries.
- (ii) The primary reason for impairment in subsidiaries, especially on the OCA (Other Current Assets), Short-Term Loans & Advances and long-term loans and advances were due to the introduction of new cyber law in 2018 across the EU and various parts of the world called the GDPR, which required products to be compliant with their specifications relating to collection, storage and analysis of consumer data and forced the company to discontinue certain legacy products that cannot be upgraded to meet GDPR regulations or in certain cases it was financially unviable as the cost of upgrade was substantial. Hence, it was a one-time extraordinary item (due to change in law). The BGL audit committee recommended that all products be tested for impairment at their respective locations. This exercise was conducted in FY 19-20, and all subsidiary financials made provision for impairment in that year.
- (iii) Write-off of loans and advances is the recognition of a loss when the possibility of recovering the principal and interest on the loan or advance is remote. Write-offs are usually specific to a particular loan or advance, and result in the recognition of an expense in the income statement. The write-off of a loan or advance does not necessarily trigger an impairment of other assets in the company's financial statements.
- (iv) For recording of subsidiary loss, the company has followed the prescribed process of consolidating financial statements in accordance with Ind AS 110 and has duly recorded any losses incurred by its subsidiaries in the consolidated financial statements. BGL has disclosed all relevant information regarding the impairment of investment/loan to subsidiaries amounting to INR 411.76 Crores in FY 2018-19. The loss on investment, which was written off, has been explicitly disclosed on page 85 of the Annual Report for the FY 2018-2019. Additionally, the events and circumstances leading to the recognition of impairment losses have been clearly disclosed in the auditor's report, in paragraph (f) on page 81 of the Annual Report for the FY 2018-2019. Further, assets impaired during FY 2019-20 amounting to INR 8,68,30,54,265/- is disclosed on page 159 of Annual report of FY 2019-2020. The recognition of impairment of assets is disclosed in the auditor's report in para

(5) in page no. 153 of Annual Report of FY 2019-2020. Due to this impairment, there has been no reduction in operating profitability in the two years, FY 18-19 and FY 19-20. Hence, the allegation that impairment affects investments by BGL in subsidiaries has no basis.

(e) Recognizing impairment losses in OCI is allowed

- (i) The impairment of assets of INR 411.76 crores and INR 868.30 crores are related to the subsidiaries of the company, and it has been recognized in their respective financial statements. This impairment will not directly impact the company's profit and loss account. The company has duly disclosed this information in its books, and the value of investment has also been reduced accordingly. If the impairment losses are not expected to have a direct impact on the parent company's financial performance, it is appropriate to recognize them in Other Comprehensive Income ("OCI"). In this case, the impairment losses of the subsidiaries are not expected to directly impact the parent Company's profit and loss account.
- (ii) In the case of non-financial assets, such as property, plant, and equipment, an entity has the option to recognize impairment losses in either the profit and loss account or OCI. If an entity chooses to recognize the impairment loss in OCI, it means that the loss is not immediately recognized in the profit and loss account but is instead recorded as a component of equity. The impairment losses of the subsidiaries are recognized in their respective financial statements, as per the local laws in their respective jurisdictions. The impairment of assets, particularly Other Current Assets (OCA) and current assets, was due to the introduction of the GDPR in 2018, which required the company's products to comply with its specifications, leading to the discontinuation of certain product features.
- (iii) As per Ind AS 36, "Impairment of Assets," an entity can recognize impairment losses in OCI or in the profit and loss account, depending on the nature of the asset and the expected impact of the impairment on the entity's financial performance.
- (iv) When it comes to impairment losses of subsidiaries, Ind AS 36 does not explicitly state whether such losses should be recognized in the parent company's profit and loss account or in OCI. This is because the determination of whether such losses should be recognized in the parent company's profit and loss account or in OCI requires judgement and depends on the specific facts and circumstances of each case.

- (v) Recognizing impairment losses of subsidiaries in OCI, can provide a more accurate representation of the group's financial position. This is because OCI is a separate component of equity that reflects items of income and expense that are not recognized in the profit and loss account. By recognizing impairment losses of subsidiaries in OCI, the parent company can provide users of the financial statements with a clearer picture of the group's financial position without distorting its own financial performance. This is because the impairment losses of the subsidiary are reflected in the group's overall equity, which represents the residual interest in the assets of the group after deducting liabilities.
- (vi) While Ind AS 36 does not specifically state that impairment losses of subsidiaries can be recognized in OCI if they do not have a direct impact on the parent company's financial performance, this is an application of the principles of the standard. This is because the determination of whether such losses should be recognized in the parent company's profit and loss account or in OCI requires judgement and depends on the specific facts and circumstances of each case. The application of the principles of Ind AS 36 to determine whether impairment losses of subsidiaries should be recognized in OCI if they do not have a direct impact on the parent company's financial performance is based on the concept of group financial statements. The objective of group financial statements is to provide users with a view of the economic activities of the group as a whole, rather than just the activities of the parent company. If the impairment losses of subsidiaries are not expected to directly impact the parent company's profit and loss account, then recognizing them in OCI can provide a more accurate representation of the group's financial position, as it does not distort the parent company's financial performance.
- (vii) The accounting treatment given to impairment of assets in FY 2019-20 was aggregation of the impairment to be carried out over the years. In case, the impairment was carried out in the earlier years, the overall impact of the impairment / treatment as per other accounting standard during the course of four to five years would be same. Therefore, treatment of impairment of assets would have same impact on the overall financial position of the company and no fraud can be alleged in this regard.
- (f) Accounting treatment given to impairment of assets was audited by the statutory auditor**

- (i) The statutory auditor carried out the audit and certified that the financial results show true and fair view of the financial position of the Company.
- (ii) As per the Annual Report of FY 2019-20 at page no. 149, the Independent Auditor on the Audit of the Consolidated Financial Statements has stated that *“In our opinion and to the best of our information and according to the explanations given to us, the aforesaid consolidated financial statements give the information required by the Companies Act, 2013(the “Act”) in the manner so required and give a true and fair view in conformity with Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules ,2015, as amended (“IndAS”) and other accounting principles generally accepted in India , of the consolidated state of affairs of the Group as at March 31, 2020, the consolidated profit, consolidated total comprehensive income, consolidated changes in equity and its consolidated cash flows for the year ended on that date.”*

(g) There is no requirement in the accounting standards that “Intangible Assets Under Development” and “Capital Work-In-Progress” should be transferred to “Intangible Assets” as and when the asset recognition criteria is met

- (i) BGL has established a consistent process for recording monthly expenses incurred during the development of various products/components. To facilitate operational convenience, the expenses are *maintained* separately in excel workbooks. At the end of each financial year, status of each product/component in development is assessed and the expenditures are classified into different heads of account by passing a single entry. The classification of expenses into different heads of account at the end of the financial year allows for a clear and accurate representation of the company's financial position, performance, and cash flows related to product/component development.
- (ii) This process is not only in compliance with accounting standards, including AS 26 and Ind AS 38, but also meets the company's internal accounting and operational requirements.

(h) BGL had made disclosure regarding impact of GDPR on BGL

Introduction of GDPR has already been communicated *vide* press release dated May 25th, 2018, article published in The Hindu dated June 19th, 2018, as well as in various other reports and financials released by the Company.

(i) BGL had disclosed the fact of the initiation of forensic audit to Stock Exchanges

- (i) The disclosure with the Stock Exchange had already been made which was widely reported in media, and it was available in the NSE and BSE.
- (ii) BGL received the forensic audit initiation letter from SEBI on September 16, 2021. However, BGL had requested SEBI to withdraw forensic audit. On February 25, 2022, SEBI informed that BGL's request for withdrawal of forensic audit has not been acceded and that the audit would be necessary. Therefore, BGL took immediate steps to comply with the directions made by SEBI in the letter dated September 16, 2021. On February 28, 2022, BGL had clearly disclosed the initiation of forensic audit to the Stock Exchanges.

(j) BGL had made appropriate disclosures to the Stock Exchange regarding the shareholding pattern

- (i) BGL had made appropriate disclosures to the stock exchange regarding the shares pledged (i.e., encumbrances). As per the terms of pledge agreement, the shares would be transferred to the account of the pledger. However, the beneficial ownership and voting rights of the shares would be with the promoters of the Company.
- (ii) Accordingly, the legal and economic ownership lies with the promoter of the Company, and therefore, the same has been correctly reported as encumbrance in the shareholding pattern to the Stock Exchanges.

(k) BGL has not issued false and misleading press release

BGL had appointed internal auditor which was confirmed *vide* board resolution dated May 10, 2018.

(l) The quarterly consolidated financial results were reviewed and recommended by audit committee and approved by the board of BGL

- (i) The subsidiary financials for the full year, which includes the quarters ended June 30th, 2019, September 30th, 2019, December 31st, 2019, and March 31st, 2020, were fully audited annually by the auditors of the corresponding subsidiaries.

- (ii) All the quarterly consolidated financial results, which consist of subsidiary financials for the period, for the quarters ended June 30th, 2019, September 30th, 2019, December 31st, 2019, and March 31st, 2020, have been reviewed and recommended by the audit committee and approved by the board of directors of the Company which has been reported in the Stock Exchange.

(m) BGL's audit committee was constituted as per regulations and it had appointed independent directors on the board of its overseas material subsidiaries

- (i) Audit committee was in place and functional prior to October, 2014. The board resolution constituting the audit committee took place in June, 2012. Also, the quarterly consolidated financial results for the quarter ended September 30th, 2014, also mentions that the same has been reviewed and recommended by the audit committee.
- (ii) BGL had appointed independent directors, Dr. Surabhi Sinha and Dr. Jayalakshmi Kanukollu on the board of its overseas subsidiary as per regulation 24(1) of LODR Regulations on April 28, 2023.

(n) BGL had made available the standalone financial statements of subsidiaries on its website

The standalone financial statements of its subsidiaries are available and they have been regularly published in the annual report, which is available on the website of the Company.

(o) No adverse inference can be drawn due to delay in implementing structured digital database

BGL was in process of installing the Structured Digital Database (“SDD”) software but due to unavoidable circumstance, BGL had delayed in installing the said software. No adverse inference to be drawn in this regard. SDD was installed in the month of December, 2022.

(p) The statutory auditors have performed their duty

- (i) Audit strategy, audit planning (including but not limited to sampling and materiality), audit procedures and audit report were based on the relevant Standards on Auditing

issued by ICAI. Audit was based on the books of accounts, information, supporting documents, explanations, assumptions, representations and judgements maintained / provided / made by the management of BGL during the course of audit. Auditors face inherent limitations that prevent them from providing absolute assurance. These limitations include sampling risk, management fraud, limitations of internal control, and time constraints.

(q) Appointment of statutory auditors was not in violation of rotation rules

- (i) The fact that CA Naveen Madivada and CA Lakshmi Prasanthi, partners at PCN & Associates, did their CA articleship in M/s. P Murali & Co, does not necessarily imply that the two firms were part of the same network of audit firms. Article ship does not constitute an employer-employee relationship between the firm and the trainee. Further, being a consultant in previous years, does not imply that the 2 organizations PCN & Associates are associated with P Murali & Co.

(r) There was no business relationship or independence issue with the auditors

- (i) At the time of appointment of M/s P. Murali & Co., Chartered Accountants as Statutory Auditors of BGL, there was no business relationship or independence issue.
- (ii) Sri. P Murali Mohana Rao and Smt. P Naganandini resigned as designated partners in M/s Palace Heights Avenues LLP on June 27, 2022, and August 10, 2022, respectively. M/s P. Murali & Co., Chartered Accountants, were appointed as statutory auditors of the Company in the annual general meeting held on September 30, 2022.

(s) Status of compliance with directions of Interim Order cum SCN

- (i) Paragraph 177(b) (Audit committee examination of Financial Statement) of the Interim Order cum SCN has been complied with. As regards paragraph 177(b) (financial statement impact of non-compliance) of the Interim Order cum SCN, certified peer reviewed chartered accountant's report is in progress and would be completed very soon.
- (ii) As regards paragraph 177(c) of the Interim Order cum, BGL has published on the stock exchanges and the same was intimated to SEBI vide its letter dated April 20, 2023.

- (iii) As regards paragraph 177(d) of the Interim Order cum SCN, BGL has appointed Mrs. Surabhi Sinha and Dr. Jayalakshmi Kanukollu on the board of directors of overseas subsidiary of the Company.
- (iv) As regards paragraph 177(e) of the Interim Order cum SCN, the Company has disseminated the standalone financial statements of each of its subsidiaries on the Company's website for the period between FY 2014-15 and FY 2021-22.
- (v) As regards paragraph 177(f) of the Interim Order cum SCN, the same is in process and would be completed very soon.
- (vi) As regards paragraph 177(g) of the Interim Order cum SCN, the same has been complied and it has been intimated to SEBI vide email / letter dated September 09, 2023.

(t) Jurisdiction with respect to interpretation of accounting standards

The Noticees have submitted that interpreting accounting standards is not within the jurisdiction domain of SEBI.

- 12.** Replies of Mr. M. Suresh Kumar Reddy (Noticee 2) submitted *vide* emails dated October 16, 2023, December 21, 2023 and email dated May 25, 2024 is summarized below as follows:

(a) Violation of Article 21 and no urgency to pass interim directions

- (i) By passing the Interim Order cum SCN without going into the merits of the case, SEBI has violated the principles of natural justice, Article 19(1)(g) and Article 21 of the Indian Constitution.
- (ii) The investigation period is up to March, 2020, however, the Interim Order cum SCN has been passed in April 2023. No case has been made out to show the urgency as to why the interim directions were necessary.

(b) M. Suresh Reddy is not liable under section 27 of SEBI Act

- (i) M. Suresh was Chairman & Managing Director of BGL till August 25, 2023. His work mostly includes directing and supervising the group's strategy and its implementation globally. M. Suresh's role involved leading innovations and he was responsible for BGL's worldwide technology enhancements and innovations. Liability depends on the role one plays in the affairs of the company and not on any designation or status.

- (ii) M. Suresh has only violated LODR Regulations and not PFUTP Regulations read with section 12A of SEBI Act as he has neither gained any unfair advantage nor caused any loss to investors.
- (iii) The Interim Order cum SCN has not brought out any concrete figure of the loss incurred by the Indian investors due to the violations, if any, alleged to be committed by BGL and its directors.
- (iv) Hon'ble SAT in Reliance Industries Ltd. vs. SEBI, decision dated December 04, 2023, held that merely holding the designation of Managing Director does not suffice for imputing vicarious liability to such person.

(c) BGL has submitted all data and comments timely

- (i) Brightcom group has 16 subsidiaries and 25 offices spread across the globe. These subsidiaries follow different accounting standards as applicable in those countries, the accounts are maintained in local languages and returns are also filed in local languages. The data requested was for a period of 6 years starting FY 2014-15 till 2019-20. To comply with this, it needed a huge effort to coordinate with the subsidiaries, extract the data, translate the data into English and finally to submit the data according to the format requested.
- (ii) The resignation of the company secretary in the month of October, 2021 and retirement of the CFO during the month of March, 2022 hampered the data collection and compilation efforts. BGL has submitted the data as and when received. With respect to summons dated October 04, 2022, BGL has submitted all the data and comments on time.

(d) Impairment of assets was rightly categorized in OCI

- (i) By recognizing the impairment losses of the subsidiary in OCI, the parent company can provide users of the financial statements with a clearer picture of the group's financial position. The parent company's financial performance remains unchanged, as the impairment losses do not have a direct impact on its operations. It is clearly evident from the fact that the revenue of BGL, for the FY ending March 31, 2021, has increased by about 6.07% and for the FY ending March 31, 2022 the revenue growth was a whopping 75.77%. Hence, the impairment of assets has no impact on the revenue generating and profit-making capabilities of BGL. The application of accounting standards requires professional judgement, and entities need to carefully

consider the specific circumstances of their transactions and disclosures when applying the standards.

- (ii) Regarding the recording of subsidiary loss, the Company has followed the prescribed process of consolidating financial statements in accordance with IND AS 110 and has duly recorded any losses incurred by its subsidiaries in the consolidated financial statements. The Company has also made appropriate disclosures related to subsidiary losses in its financial statements, which have been audited by the statutory auditors and found to be in compliance with Accounting Standards.

(e) Impairment of assets was disclosed in time

- (i) BGL operates in the online advertising business, which heavily relies on an ad-based business model. However, this practice of selling products to specific people by use of targeting capabilities is often seen as intrusive and a violation of privacy. As a result, GDPR was implemented in May 2018 in response to this consumer issue. The UK and EU were the first to introduce clear regulations on data privacy and marketing processes that online marketing firms must follow. Consequently, internet based companies worldwide were compelled to retire certain features in their products to comply with GDPR. Subsidiaries of Noticee 1 also had to rework and retire many features of their existing platforms.
- (ii) Following the compliance with GDPR, there was an observation period of about one year to evaluate the effectiveness of the changes made, which is the standard protocol for global software system changes. Subsequently, the audit committee of Noticee 1 recommended that all products be tested for impairment at their respective locations. This exercise was conducted in FY 2019-20, and all subsidiary financials made provision for impairment in that year. Therefore, the argument that the impairment should have been taken in the preceding years is without any merits. Further, due to this impairment, there has been no reduction in operating profitability in the two years FY 2018-19 and FY 2019-20. Hence, Noticee 2 submits that the allegation made in the Interim Order cum SCN which states that the impairment made by Brightcom affects the investments, has no basis or relevance at all.

(f) BGL is actively working with Daum Corporation to take over Lycos Inc.

- (i) The original stock purchase agreement was entered between BGL and Daum Holdings Corp. on August 15, 2010 with a downpayment plus earnout payment by

end of December 31, 2010. Ybrant Media Acquisition, a BGL group company has paid the advance amount of USD 20 million and got possession of 100% of shares and 44% was pledged back to Daum Holdings Corp against the remaining payment. Daum Corp. later revised the acquisition price that was agreed upon and a case was filed in February 2014. The order for this case was pronounced on October 06, 2015. BGL has gone for an appeal and the final order was issued in May, 2018. BGL is renegotiating the amount payable with Daum Holding Corp. to an amount lower than the one awarded by the court as a final settlement where all legal disputes are withdrawn and all the shares will be transferred to BGL.

(g) Not seeking exemption from publishing financial results of subsidiary was unintentional

Not seeking exemption from SEBI from publishing the subsidiary financial results on the applicability of regulation 46 of the LODR Regulations was purely unintentional and without *malafide* intent.

(h) Para 144 of Interim Order cum SCN

The minutes of the board meetings of remaining 3 subsidiaries is irrelevant as the size of their operations is relatively small and there is no impairment in those subsidiaries.

(i) Other submissions of Noticee 2

- (i) Contentions of BGL are adopted including cases.
- (ii) Noticee 1 has maintained appropriate documentation to support its accounting treatments related to intangible assets and product / component development, including the classification of expenses into different heads of account at the end of the Financial Year.
- (iii) With regard to sale of shares of BGL, as per the price volume data available, the price was around INR 8 in Jan 2014 and rose to a level of INR 66 in Oct 2014, then it started falling and it came below INR 20 in March 2016. Pursuant to the announcement of the impairment of assets the price again started rising since the market accepted the impairment as a positive news. The major sale by the promoter took place from July 2017 to June 2020 as the shareholding of the promoter came down from around 27% to around 12%.

(iv) The impairment of loss has been carried out in FY 19-20 and the same came in public domain on June 25, 2020. It is observed from price volume chart that pursuant to impairment of assets, the price of the scrip has steadily gone up. This establishes that the argument of SEBI that promoters got enriched or earned unlawful gains by selling the shares prior to impairment is illogical since after impairment the price went up and did not go down.

13. Reply of Mr. Vijay Kancharla (Noticee 3) submitted *vide* email dated October 14, 2023 is summarized below as follows:

(a) Violation of principles of natural justice

- (i) By passing the Interim Order cum SCN without going into the merits of the case, SEBI has violated the principles of natural justice, Article 19(1)(g) and Article 21 of the Indian Constitution.
- (ii) The investigation period is up to March, 2020, however, the Interim Order cum SCN has been passed in April 2023. No case has been made out to show the urgency as to why the interim directions were necessary.

(b) Mr. Vijay Kumar Kancharla is not liable under section 27 of SEBI Act

- (i) Mr. Vijay's role involved leading innovations and he was responsible for BGL's worldwide technology enhancements and innovations.
- (ii) Mr. Vijay has only violated LODR Regulations and not PFUTP Regulations read with section 12A of SEBI Act as he has neither gained any unfair advantage nor caused any loss to investors.
- (iii) The Interim Order cum SCN has not brought out any concrete figure of the loss incurred by the Indian investors due to the violations, if any, alleged to be committed by BGL and its directors.

(c) Role of Mr. Vijay Kumar Kancharla

- (i) Vijay is the founder and whole time director of BGL since June 26, 2012. He is responsible for the company's worldwide technology enhancements and innovations. He is stationed in US and day-to-day functions of BGL is handled in India. Therefore, he receives the final financial statements and other records for signatures and necessary compliance.

(d) MCA Circular dated March 25, 2011

- (i) Reliance is placed upon circular no. 2/13/2003/CL-V dated March 25, 2011, issued by MCA and addressed to all Regional Directors, all Registrar of Companies and all Official Liquidators clarifying that the Registrars of Companies (RoCs) and others should take extra care in examining cases where independent directors are identified as "officer in default".

(e) BGL had disclosed impact of GDPR on BGL

- (i) Till May 25, 2018, the GDPR regulation framework was still evolving and BGL was mapping its features / components to the requirements specified by GDPR regulations. The impact assessment stage had not started as of March 31, 2016. Hence, the statement *"There are no Material Changes and Commitments affecting the financial position of the Company which occurred between the end of the financial year to which the financial statements relate and the date of this Report"* is correct.
- (ii) For the directors' report dated October 16, 2018, BGL's technical team has identified the features / components that needs to be reworked / upgraded to meet the GDPR regulations. These features / components were removed from the client offerings. However, all the components were being reviewed and tweaked to ensure that the GDPR regulations are met. Going by the prudent and well-established practices of IT industry, BGL decided to work upon those features / components, test them and then either offer those features / components to customers or to retire them. Hence, as of October 16, 2018, there were no material changes on the financial position of BGL because of GDPR regulations and there was no reason for management to disclose it in directors' report.
- (iii) BGL's management had already communicated about introduction of GDPR regulations to its shareholders via press release dated June 19, 2018 in The Hindu newspaper and the same has been reported in the stock exchanges.

(f) BGL has not failed in implementation of SDD

- (i) BGL was in process of installing the SDD software but due to unavoidable circumstance BGL delayed installing the said software. There was no ill intention in this regard. SDD was installed in BGL in the month of December, 2022. The virtual inspection was conducted by Mr. Harshad Naik (Officer of BSE) on March 09, 2023.

(g) Other submissions of Noticee 3

- (i) Contentions of BGL are adopted including cases.
- (ii) In context of para 145 of Interim Order cum SCN, the minutes of the board meetings of remaining 3 subsidiaries is irrelevant in the current context as the size of their operations is relatively small and there is no impairment in those subsidiaries.

14. Reply of Mr. Y Ramesh Reddy (Noticee 4) submitted *vide* letter dated July 24, 2023, email dated November 14, 2023, email dated March 15, 2024 and email dated May 27, 2024 is summarized below as follows:

(a) Violation of Article 21 and no urgency to pass interim directions

- (i) By passing the Interim Order cum SCN without going into the merits of the case, SEBI has violated the principles of natural justice, Article 19(1)(g) and Article 21 of the Indian Constitution.
- (ii) The investigation period is up to March, 2020, however, the Interim Order cum SCN has been passed in April 2023. No case has been made out to show the urgency as to why the interim directions were necessary.
- (iii) SEBI did not call Noticee 4 (Mr. Yerradoddi Ramesh Reddy) to record his statement. If he would have been called, he would have clarified queries of the Investigating Authority and there would be no need to issue the Interim Order cum SCN.

(b) Interim Order cum SCN is vague

- (i) No specific role has been attributed to Noticee 4 to enable him give a suitable reply to the Interim Order cum SCN. He was designated as an executive director only for a period of 11 months, however, without specifying any specific role in the wrongdoing, if any, harsh directions have been issued against him.

(c) Role of Noticee 4 in BGL

- (i) Alleged finding contained at para 151 of the said Interim Order cum SCN that Noticee 4 was the CFO till 2021 is factually incorrect. As per BGL's Annual Report for FY 2018-19, his name is neither mentioned in board of directors list nor in KMPs list. However, SEBI has failed to appreciate the fact that he had resigned as a CFO in

April, 2017. On March 15, 2017, he resigned as executive director and pursuant to his resignation he was not associated with BGL in any manner. Due to his pre-occupation and complexity of the job involved, he resigned from the post of executive director along with the post of CFO which was accepted by the Board on April 20, 2017.

(ii) Noticee 4 joined BGL as an independent director on June 26, 2012. During this period, he was a member of the audit committee. Thereafter, he was appointed as whole time director in professional capacity on May 09, 2016 and also appointed as group CFO from May 09, 2016 to April 20, 2017 whose duties includes the following: Corporate finance, meet and manage relationships with institutional investors to update on BGL's performance and seek support for further investments, evaluate new target acquisition companies through strategic partnerships and investments / take over, assess and advise the board on the possible risks involved while evaluating acquisition targets, guide the investor relationship and public relationship team in BGL.

(iii) This role did not involve any of the following:

- (a) Day-to-day management and maintenance of finance and accounts of BGL or its subsidiaries;
- (b) Management or monitoring of operations of any division or subsidiary of the BGL;
- (c) Any financial control or management as this role had no financial authority in terms of managing any bank accounts, funds flow and or authority to make any financial commitments for or on behalf of BGL.

(iv) Noticee 4 was not inducted on to any of the overseas subsidiaries of BGL. Due to this, the audit committee solely relied on the audited and unaudited financials submitted by the management viz the CMD and CFO of the Company, the feedback of the internal audit team that was constituted inside the Company and the statements submitted by statutory auditors of the Company and the audited and unaudited financials of the subsidiaries presented by the management of the Company duly reviewed by the auditor of the Company.

(v) As part of the audit committee, Noticee 4 and the other members of audit committee noted that for every quarter:

- The due process of stand-alone and consolidated financials were prepared and presented to the audit committee;

- The internal audit team provided their inputs as per the scope of their activity and confirmed that proper internal controls were being followed by BGL.
- The CMD and CFO certified that the financials of the stand-alone and subsidiaries were audited or reviewed as per the guidelines and regulations stipulated.
- The CMD gave a detailed presentation to the committee on the business operations of BGL and each of its major subsidiaries, gave inputs on the financials of these companies.

(vi) On the matter of being one of the signatories to the annual report for FY 2015-16,

- the said audited financials and the annual report were prepared by consolidating the financials that were already published on May 28, 2016, and these were prepared and certified by the CMD (Managing Director) and CFO of the Company, and presented to the audit committee and board along with the audit report from the statutory auditor of the company;
- the annual report was signed based on the financials already prepared and finalized and Noticee 4 did not have any role in the preparation of financials, consolidation or review of the accounts of BGL for the year FY 2015-16 other than as the audit committee member and independent director for this period.

(vii) For the entire period from April 01, 2012 (and even before this period) to the current date, BGL always had a full time CFO reporting directly to the MD and CMD and all the finance and accounts were directly handled by this CFO. All the financial reports in every quarter and end of the year were prepared by the accounts and finance team directly reporting the CFO. The fulltime CFO and CMD together gave the certifications of assurance to the board for each financial reporting period, quarterly, semi-annually and annually.

(d) Camouflage accounting entries in excess of INR 1280 crores during FYs 2018-2019 and 2019-20

(i) Noticee 4's resignation was accepted by the board of BGL on April 20, 2017, this establishes that he was not in the BGL during FY 2018-19 to 2019-20 when impairment of assets was reported in the books of accounts of the Company. Therefore, any allegation upon him is misplaced and it is on the basis of surmises and conjectures. However, based on the information shared by the Company with

respect to capitalization of the R&D expenses, a brief note has been attached. The note is based on the Company's assertions and confirmations that in compliance with the extant IAS 38 standards and applicable rules, the management of the Company is authorized and responsible to recognize and justify the value of the assets being developed and their ongoing value. The board and audit committee replied on these inputs as certified and confirmed to the board by the CEO and the CFO.

(e) Accounting policies of BGL

- (i) All the accounting policies were being followed since 2011, that is, since BGL was taken over. The accounting policies were neither changed nor amended. The consistency was maintained in the accounting policies since the company is having subsidiaries across the globe and the minor change in any policy could have cascading effect.
- (ii) The accounting policy followed by BGL is also followed by the peers due to peculiarity of the business. The same is also disclosed in annual report on the regular basis. With regards to allegation made against Noticee 4 that as member of audit committee he has failed to disclose about accounting policies, the accounting policy is mentioned in BGL's annual report for FY 2017-18.

(f) Circulars issued by MCA and RBI

- (i) Reliance is placed upon circulars dated March 25, 2011 and March 02, 2020 issued by Ministry of Corporate Affairs and addressed to all Regional Directors, all Registrar of Companies and all Official Liquidators clarifying that the Registrars of Companies and others should take extra care in examining cases where independent directors are identified as "officer in default". The circular clarifies that civil or criminal proceedings are not unnecessarily initiated against the IDs or the NEDs unless sufficient evidence exists to the contrary.

(g) Other submissions of Noticee 4

- (i) During his brief tenure in BGL, he took care in fulfilling the responsibilities along with other directors.
- (ii) As observed from the Interim Order cum SCN, all the CEO / CFO certifications for the financial statements were signed by Mr. Suresh Kumar, the Chairman, and Mr.

Y. Srinivas Rao, the CFO. The sole annual report that Noticee 4 has signed was on the basis of the financials already finalized, reported and certified in previous corresponding statement duly certified by them.

- (iii) As per forensic audit report, all activities of the Company and its subsidiaries were only managed by Mr. M. Suresh Kumar Reddy (Noticee 2) and Mr. Vijay Kancharla (Noticee 3). Further, all meetings were attended only by Noticees 2 and 3, therefore, it supports that Noticee 4 had visibility into operations only through the board and it was all based on representations given by Noticee 2.
- (iv) Noticee 4 was not associated with BGL after April 20, 2017, and therefore, he was not responsible for implementation and maintenance of SDD containing names of persons with whom UPSI was shared as required with effect from April 01, 2019.
- (v) SEBI has taken actions against Noticee 4 for being the Group CFO and also against Mr. Y. Srinivasa Rao for being the CFO. Two people are being punished for the same role without making any effort to bifurcate the roles being played by them.
- (vi) As regards the contravention of section 27 (2) of SEBI Act and section 24 of SCRA, the provisions reproduced in the Interim Order are the latest provisions without mentioning any amendments carried out during the period of April 2014 to March 2020. Noticee 4 had resigned from BGL on April 15, 2017 pursuant to which he was not connected to BGL in any manner.
- (vii) Noticee 4 has not violated any provisions of PFUTP Regulations. It is submitted that Noticee 4 has violated only LODR Regulations.
- (viii) Throughout Noticee 4's association with BGL to till date, he has neither owned, traded, bought or sold any shares of the Company, either directly or indirectly nor did he receive any compensation / remuneration or other pecuniary benefit directly or indirectly, other than the amounts declared in BGL's annual reports towards sitting fees and salary received during the FY 2016-17.
- (ix) As regards the allegation at para 174 that the Noticees have directly benefitted by off-loading their shares in BGL and increasing their shareholding at much lower price, Noticee 4 has neither bought the shares of BGL nor sold the sold the shares. Therefore, he has not benefitted by single paise by any unlawful gains.

15. Reply of Mr. Y. Srinivasa Rao (Noticee 5) submitted *vide* reply dated October 14, 2023 is summarized below as follows:

(a) Violation of principles of natural justice

- (i) By passing the Interim Order cum SCN without going into the merits of the case, SEBI has violated the principles of natural justice, Article 19(1)(g) and Article 21 of the Indian Constitution.
- (ii) The investigation period is up to March, 2020, however, the Interim Order cum SCN has been passed in April 2023. No case has been made out to show the urgency as to why the interim directions were necessary.

(b) Y. Srinivasa Rao is not liable under section 27 of SEBI Act

- (i) Y. Srinivasa Rao was looking after the accounting, finance, income tax, GST and other tax related matters relating to Indian operations.
- (ii) Y. Srinivasa has only violated LODR Regulations and not PFUTP Regulations read with section 12A of SEBI Act as he has neither gained any unfair advantage nor caused any loss to investors.

(c) Role of Mr. Y. Srinivasa Rao (Noticee 5)

- (i) Noticee 5 was neither a promoter nor a director during the Investigation Period, therefore, no illegal gains have been made by him. He has not sold any shares of BGL to warrant any allegations of violation of SEBI Act and PFUTP Regulations. The Interim Order cum SCN does not bring any collusion between Noticee 5 and the auditors / other directors to allege any kind of fraud on the part of Noticee 5.
- (ii) He was appointed as CFO of BGL and not of its subsidiaries from January 01, 2015 to March 25, 2022. He used to report to managing director and board of directors. Pursuant to his retirement on March 25, 2022, he was not involved in the day-to-day management and affairs of the company. He did not have any relationship with the other directors of the Company, or with the promoters, or any senior management of BGL.
- (iii) Being the CFO of BGL, he had to supervise the accounting team to ensure the following functions: Raising invoices on the customers for the sales, processing the purchase and expenses bills received from the vendors, maintain the general ledgers and reconciliation of all accounts with the customers and vendors, filing the monthly / quarterly/ yearly returns to the income tax, GST and other statutory bodies, attending the auditors to provide with the required information during the audit

process, preparation of trial balance, profit and loss account and balance sheet for the standalone financials.

- (iv) As to how the accounts are finalized, the Indian accounting team of BGL prepares the stand alone financials for every quarter and every year end based on the accounting records and on quarterly and yearly basis accounts are finalized and reported. For standalone, trial balance is taken from the accounting records i.e., tally and financial statements are prepared for reporting purpose. For consolidation, the financial reports are received from each subsidiary in US Dollars then those reports are converted into INR. The consolidation is done by adding line by line of each item of the subsidiaries with the standalone financials.

(d) Other submissions of Noticee 5

- (i) Contentions of BGL are adopted.

16. An appeal was preferred against the Interim Order cum SCN before the Hon'ble SAT by Brightcom Group Ltd. (Noticee 1), Mr. M. Suresh Kumar Reddy (Noticee 2) and Mr. Vijay Kancharla (Noticee 3). In response to the appeal, forensic audit report was shared with Noticees 1, 2 and 3 as part of the appeal memorandum filed before Hon'ble SAT dated January 16, 2024. Since the forensic audit report was shared with Noticees 1, 2 and 3 and not Noticees 4 and 5, it was decided to provide the forensic audit report to all the Noticees. Accordingly, the forensic audit report was shared with all the Noticees on February 15, 2024. Thereafter, Noticees were given time until February 21, 2024 to submit additional reply, if any.

17. A summary of date of inspection, date of hearing and date of reply, for all the Noticees, is given in the Table below:

Table no. 5

S. No.	Noticee Name	Date of inspection of documents	Date of hearing of opportunities	Date of replies
1.	Brightcom Group Ltd.	NA	03/11/2023	07/05/2023, 14/10/2023 10/11/2023,

S. No.	Noticee Name	Date of inspection documents	Date of hearing opportunities	Date of replies
				27/01/2025
2.	M. Suresh Kumar Reddy		03/11/2023, 08/04/2024, 26/04/2024, 07/05/2024	16/10/2023, 21/12/2023, 25/05/2024, 27/01/2025
3.	Vijay Kancharla		03/11/2023	14/10/2023, 27/01/2025
4.	Yerradoddi Ramesh Reddy	03/10/2023	26/09/2023, 08/04/2024, 07/05/2024, 21/05/2024	24/07/2023, 14/11/2023, 14/03/2024, 27/05/2024, 27/01/2025
5.	Y. Srinivasa Rao	NA	03/11/2023	10/11/2023, 11/05/2023, 14/10/2023, 27/01/2025

18. Additional hearing opportunity was granted to Noticee 4 on April 08, 2024 (pursuant to his request made during the hearing). However, Noticee 4 *vide* email dated April 08, 2024 requested for an adjournment citing medical reasons. In light of the above, another hearing opportunity was granted to Noticee 4 on May 07, 2024. *Vide* email dated May 06, 2024, Noticee 4 requested for an adjournment citing unavailability of his legal counsel. Therefore, another date of hearing was granted on May 21, 2024. *Vide* additional submissions dated December 21, 2023, Mr. M. Suresh Kumar Reddy (Noticee 2) had also requested for an additional hearing opportunity. Therefore, he was granted a hearing on April 08, 2024. On the said date, Noticee 3 neither requested for an adjournment nor appeared at the scheduled date and time for availing the hearing. Hence, a final hearing opportunity was granted to Noticee 2 on April 26, 2024. On April 26, 2024, Noticee 2 requested for an adjournment citing unavailability of their legal counsel. The hearing was scheduled on May 07, 2024. On May 07, 2024, the ARs of Noticees 2 and 4 appeared in person and informed

that they have no oral submissions to make on account of unavailability of their legal counsel. The ARs also informed that they have no written submissions to file. In view of the above, given the number of opportunities granted to Noticees 2 and 4 and given that they neither had any oral submissions to make nor written submissions to file in addition to the replies already submitted, the hearing was concluded *qua* Noticees 2 and 4.

19. Vide email dated January 16, 2025, the Noticees were provided another opportunity to make any additional submissions and vide letter dated January 27, 2025, the authorised representative of the Noticees *inter alia* submitted that they intend to submit settlement application. However, till date no such settlement application has been filed.

E. CONSIDERATION OF ISSUES AND FINDINGS

20. Before dealing with the allegations under the Interim Order cum SCN, I find it appropriate to begin by dealing with certain preliminary contentions raised by the Noticees.

PRELIMINARY CONTENTIONS

21. The Noticees have claimed that the Investigation Period was up to March 2020, however, the Interim Order cum SCN was passed in April 2023. According to the Noticees, no case has been made out to show the urgency as to why the interim directions were necessary. In this regard, certain important dates may be noted:

Table no. 6

#	Date	Event
1.	January 20, 2021, January 21, 2021, and May 05, 2021	Complaints forwarded to BSE Ltd. for examination.
2.	June 30, 2021	BSE Ltd. submitted its report.
3.	September 07, 2021	Investigating authority was appointed.
4.	September 16, 2021	Forensic auditor appointed.
5.	February 2022 to October 2022	Summons issued to BGL and statements recorded.
6.	December 08, 2022	Forensic auditor submitted its report.

Thus, from the above, I note that the time taken to pass the Interim Order cum SCN from the end of Investigation Period was justified given the involvement and submission of reports of different third-party stakeholders such as the BSE Ltd. and forensic auditor.

22. Further, the Noticees have submitted that by passing the Interim Order cum SCN without providing an opportunity of personal hearing is in gross violation of natural justice. The interim directions issued against BGL ought to be lifted on an urgent basis. In this regard, I note that paragraphs 5 to 7 and 180 of the Interim Order cum SCN read as follows:

“5....Based on the information available on record, prima facie findings and observations were made in the matter, which were communicated to BGL vide summons dated October 04, 2022. BGL was advised to provide its detailed comments along with supporting documents. Further, summons dated October 06, 2022 was also issued to the Chairman and Managing Director of BGL, Mr. Suresh Reddy, to appear before the Investigating Authority and provide comments to the prima facie findings / observations of investigation.

6. BGL vide email dated October 12, 2022, furnished its detailed response along with supporting documents. Further, Board of Directors of BGL, through its representative Mr. S.L. Narayana Raju, appeared before the Investigating Authority on October 13, 2022, and his statement was recorded. Subsequently, Mr. Raju furnished further information and documents vide emails dated October 17, 2022 and October 19, 2022, as undertaken by him during the statement recording.

7. The final findings of investigation, after considering the replies of BGL and its CFO in response to interim findings, are discussed in the subsequent paragraphs under appropriate headings.

180. In this context, the concerned Noticees may, within 21 days from the date of receipt of this Order, file their reply/ objections, if any, to this Order and may also indicate whether they desire to avail an opportunity of personal hearing on a date and time to be fixed in that regard.”

(emphasis supplied)

From the above, I note that the *prima facie* observations were shared with BGL during investigation and its responses were given consideration before the Interim Order cum SCN was passed. The Interim Order has also been issued in the nature of a show cause notice affording the Noticee a post decisional opportunity of hearing. I also note that the power of SEBI to pass interim orders flows from sections 11 and 11B of the SEBI Act, which empower SEBI to pass appropriate directions in the interests of investors or securities market, pending investigation or inquiry or on completion of such investigation or inquiry. While passing such directions, it is not always necessary for SEBI to provide the entity with an opportunity of pre-decisional hearing. The law with regard to doing away with the requirement of pre-decisional hearing in certain situations is also well settled. It is pertinent to note that the Interim Order in the present case was passed under the provisions of sections 11(1), 11(4) and 11B of the SEBI Act. The second proviso to section 11(4)

clearly provides that "*Provided further that the Board shall, either before or after passing such orders, give an opportunity of hearing to such intermediaries or persons concerned*". In view of the above, I find that the Interim Order cum SCN passed by SEBI was in compliance with the principles of natural justice since, reasons for passing the Interim Order cum SCN have been clearly stated in it and, in accordance with the settled law, the Noticees were afforded a post-decisional opportunity to file their reply and avail opportunities of personal hearing. I, therefore, reject the contention of the Noticees in this regard.

- 23.** The Noticees have also submitted that no case has been made out to show the urgency as to why the interim directions were necessary. Further, the Noticees have relied on the cases of Arshad Warsi (supra), North End Foods Marketing Pvt. Ltd. (supra) and Zenith Infotech Ltd. (supra). In this regard, I note that the Interim Order cum SCN clearly brings out the reasons and circumstances for issuance of the interim directions. Further, in all of the aforesaid cited by the Noticees, the impugned orders were ex-parte interim orders. In the present case, investigation was completed which led to passing of the Interim Order cum SCN.
- 24.** Noticees 2 to 5 have also submitted that the passing of Interim Order cum SCN had a severe impact on their financial position and personal reputation and it was in violation of Article 19(1)(g) and Article 21 of the Indian Constitution. In this regard, I note that the constitutional challenge to the directions in the Interim Order cum SCN is not a matter that can be adjudicated upon by a quasi-judicial authority. The determination of violation of constitutional rights is required to be raised before the competent authority. Without prejudice to the above, I note that Article 19(1)(g) guarantees to all citizens, the right to practice any profession or to carry on any occupation, trade or business. However, at the same time, it is pertinent to mention that this freedom is not unbridled, as Clause (6) of Article 19 authorizes legislation that imposes reasonable restrictions on this right in the interest of general public. The SEBI Act is a special Act enacted by the Parliament that confers on SEBI the duty to protect the interests of investors in the securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit. Such reasonable restrictions have been imposed through delegated legislation such as the PFUTP Regulations and the LODR Regulations. In the present case, the Interim Order cum

SCN has been passed by SEBI in exercise of the powers conferred upon it by law and towards fulfilment of the duties cast under the SEBI Act.

25. The Noticees have contended that interpreting accounting standards is not within the jurisdiction domain of SEBI. In this regard, I would like to place reliance on the order of the Hon'ble SAT in the matter of Oasis Securities dated March 17, 2019 where in inter alia the following was observed:

"9. As regards allegations of violation of Clause 50 and the various Accounting Standards (3, 18 and 24) it is the contention of the appellant that SEBI has no power to adjudicate on these matters.

.....

*16. From a reading of Section 21 of the SCRA as above which states that "such person shall comply with the conditions of the listing agreement" and the language of Clause 50 of the Listing Agreement that "the company will mandatorily comply with the accounting standards issued by ICAI", **we do not find any merit in the appellants' submission that SEBI does not have any mandate / jurisdiction on ensuring that accounting standards are followed** in compliance with the listing obligations.*

*18.....Similarly, **the submission that Clause 50 is not violated because SEBI has no mandate on the accounting standards has no merit.** A reading of Clause 50 makes it clear that the stated accounting standards have to be mandatorily followed by a listed entity. Accordingly, we uphold the finding in the impugned order that the appellants have violated Clause 36 and Clause 50, along with the stated accounting standards."*

(emphasis supplied)

26. The aforesaid judgement of the Hon'ble SAT upheld the jurisdiction of SEBI to initiate action for non-compliance with the applicable accounting standards. Therefore, SEBI is not jurisdictionally barred from examining the compliance with accounting standards by listed companies.
27. Pursuant to issuance of Interim Order cum SCN against the Noticees to this Order, Show Cause Notice was also issued to 7 additional noticees for a similar cause of action. Since the issues to be decided were similar for all these noticees, a composite order for all the noticees in the matter was considered desirable. Therefore, despite hearing for the 5 noticees to this order being completed, orders were reserved for completion of quasi-judicial proceedings against the other 7 noticees. However, since the said quasi-judicial

proceedings continue to remain incomplete, and to avoid any further delays in this matter, I find it now appropriate to proceed with passing of order for these 5 Noticees.

CONTENTIONS ON MERITS

28. The Interim Order cum SCN alleges that BGL failed to strictly adhere to the provisions of accounting standards. This non-adherence to provisions of accounting standards has led to an overstatement of BGL's profits on account of 2 main infractions - (1) non-recognition of impairment loss due to introduction of new data privacy law in Europe that severely impinged upon the extant business model of BGL and (2) non-recognition of loss due to failed acquisition by BGL's subsidiary. BGL's rebuttal to both these allegations is that the recognition of impairment loss was to be carried out only after the impairment is 'permanent' or a foregone conclusion (*a state which the noticees claim had not been reached in the facts of the instant case*). It is SEBI's case that the accounting standards mandate **immediate** recognition of impairment loss which can be reversed later on if found appropriate. Similarly, the SCN alleges that with respect to R&D expenditure by BGL, the strict letter of the accounting standards has not been complied with. The Noticees have relied on "industry practice" to justify their action. It is SEBI's case that this contention of the Noticees is not substantiated and that in any case BGL's accounting practice in this regard was not in compliance with the relevant accounting standards.

29. The allegations under the Interim Order cum SCN can be divided into the following heads and sub-heads:

A. Non-compliance with Accounting Standards

I. Accounting Standards violations which impacted profit & loss and other incidental violations

(i) Impairment loss of INR 868.3 crores due to GDPR in FY 2019-20

(a) Failure to carry out annual impairment testing

(b) Incorrect accounting treatment of impairment loss

(c) Failure to disclose events and circumstances that led to impairment loss

(ii) Impairment loss of investment in subsidiary amounting to INR 411.76 crores in FY 2018-19

(a) Failure to recognize impairment loss

(b) Incorrect accounting treatment of impairment loss

(c) Failure to disclose events and circumstances that led to impairment loss

II. **Other Accounting Standards violations**

- (i) Wrong capitalization of R&D expenditure as assets
- (ii) Incorrect recognition of intangible assets

B. Other disclosure violations

- (i) Not disclosing the initiation of forensic audit to stock exchanges
- (ii) Inconsistent disclosure of shareholding pattern
- (iii) Issuing a false and misleading press release on April 10, 2018 with respect to appointment of internal auditor
- (iv) Did not carry out limited review of unaudited quarterly results for the FY 2019-2020
- (v) Did not ensure that the constitution of its audit committee with effect from October 01, 2014 is in accordance with regulatory requirements
- (vi) Did not appoint at least one of its independent director on the board of its unlisted material subsidiaries
- (vii) Did not disclose standalone financial statements of subsidiaries on its website
- (viii) Did not maintain structured digital database
- (ix) Non-disclosure of impact of GDPR on BGL

30. Therefore, the issues before me are as follows:

Issue (1): Whether BGL failed to comply with Accounting Standards which led to violation of Listing agreement/ LODR Regulations?

Issue (2): Whether BGL failed to comply with various other provisions of Listing agreement/ LODR Regulations?

Issue (3): If the answer to Issue I to II is in affirmative, whether the Directors and CFO are responsible for the acts of BGL?

Issue (4): Whether there was a violation of PFUTP Regulations?

Issue (5): Whether issuance of directions and/ or penalty under sections 11(1), 11(4), 11(4A), 11B(1) and 11B(2) of the SEBI Act are warranted?

31. All of the aforesaid issues involve alleged violations of Listing agreement/ LODR Regulations and PFUTP Regulations. Most of these alleged violations of Listing

agreement/ LODR Regulations are of clauses 49(I)(C) and 50 of Listing agreement/ regulations 4, 33 and 48 of LODR. Clauses 49(I)(C) of Listing agreement and Regulation 4 of LODR Regulations mandate a listed entity to refrain from misrepresentation and abide by all applicable laws, make disclosures and follow its obligation in letter and spirit, and file reports that contain relevant information. Further, Clause 50 of Listing agreement and Regulation 33 and 48 of LODR mandate a listed entity to prepare its financial results as per Generally Accepted Accounting Principles in India and comply with applicable and notified accounting standards.

(1) Whether BGL failed to comply with Accounting Standards which led to violation of Listing agreement/ LODR Regulations?

- 32.** Regulation 48 of the LODR Regulations and clause 50 of the Listing agreement mandate that listed entities must comply with all applicable and notified Accounting Standards from time to time. The Accounting Standards to be complied with are Accounting Standards (AS) till FY 2014-15, and Ind AS from FY 2015-16. The failure to comply with some of these Accounting Standards are alleged to have resulted in artificial inflation of profits along with incidental or related violations. Such violations and other non-compliance of the Accounting Standards are discussed under two separate heads below.

PART I: Accounting standards violations which impacted profit & loss and other incidental violations

(i) Impairment loss of INR 868.30 crore due to GDPR in FY 2019-20

- 33.** The Interim Order cum SCN states that BGL had recorded an impairment loss of INR 868.30 crores in its consolidated financial statement for the FY 2019-20 as its subsidiaries were affected by the introduction of General Data Protection Regulation (GDPR).
- 34.** I note that GDPR is a European Union (EU) privacy and security law that governs how personal data related to people in the EU is processed and transferred by organizations. GDPR was adopted in April 2016 and became effective from May 2018. The extract of Article 99 of GDPR which specifies the date of entry into force and application of GDPR is given below.

Image 1

Article 99

Entry into force and application

1. This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.
2. It shall apply from 25 May 2018.

L 119/88

EN

Official Journal of the European Union

4.5.2016

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 27 April 2016.

For the European Parliament
The President
M. SCHULZ

For the Council
The President
J.A. HENNIS-PLASSCHAERT

35. Regarding the effect of GDPR on BGL, *vide* letter dated October 11, 2022 to SEBI, BGL had explained how its business was affected due to GDPR (answer to questions 25 a & b):

“For Digital Marketing Industry, in which BCG operates, personal data forms the core of business. The personal data gathered is used for different purposes like assessing the consumer behavioral patterns, providing relevant advertisements based on customer’s age group, income group, gender, geographic location, interests, habits / hobbies, seasonality of purchases and so on....

Going by general perception, it is this huge increase in collection and usage of data for personalized marketing which has triggered introduction of GDPR. The GDPR is a sweeping attempt to put the individual back in control of their personal data, which means marketers need to work harder for their access to and use of it.

Once GDPR regulations came into effect, BCG has started reviewing all the products components for compliance and to understand the changes that need to be made to each of them to ensure that the consumer data is collected in a way that meets the GDPR requirements.

During the course of review there were several products / components which were identified as non-compliant and some of the products / components needed tweaks to make them meet the requirements. Please find attached the entire Product List in Exhibit 5.”

36. The breakup of the assets impaired by subsidiaries of BGL during FY 2019-20 is given below.

Table no. 7

#	Particulars	Amount (INR crs)
A	<u>Loans and Advances:</u>	363.80
	Long-term loans given to service providers	26.89
	Short-term loans given to publishers / agencies	336.91
B	<u>Other Current assets:</u>	504.28
	Tools	218.06
	Software	148.71
	Hardware	98.71
	Salaries	38.80
	Total	868.30

37. With respect to the impairment loss of INR 868.30 crore due to GDPR recorded by BGL in FY 2019-20, the Interim Order cum SCN alleges the following:

- BGL failed to carry out annual impairment testing for FYs 2016-17 to 2018-19.
- BGL recognized impairment of assets of INR 868.30 crores in FY 2019-20 incorrectly under Other Comprehensive Income (OCI) in contravention of applicable accounting standards.
- BGL failed to disclose events and circumstances that led to impairment loss of INR 868.30 crores in FY 2019-20.

(a) BGL failed to carry out annual impairment testing for FYs 2016-17 to 2018-19

38. Accounting Standard Ind AS 36 dealing with “Impairment of Assets” specifically mandate that an assessment must be made at the end of each reporting period as to whether there is any indication that an asset may be impaired. Ind AS 36 specifically states that it applies to financial statements classified as subsidiaries. The relevant extracts of the said Accounting Standard (paras 4, 9 and 12 of Ind AS36) are reproduced below for reference:

“4. This Standard applies to financial assets classified as:

(a) subsidiaries, as defined in Ind AS 110, Consolidated Financial Statements;

....

9. An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

12. In assessing whether there is any indication that an asset may be Impaired, an entity shall consider, as minimum, the following Indications

External sources of information

(a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

*(b) significant changes with an adverse effect on the entity have taken place **during the period, or will take place in the near future**, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.*

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(d) the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information.

(e) evidence is available of obsolescence or physical damage of an asset.

(f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite

(g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected."

39. As noted earlier, the GDPR was formally enacted on April 27, 2016, and would come into force from May 25, 2018. Given the nature of BGL's business and as is evident from their replies to SEBI (reproduced earlier), BGL was clearly aware of the risks that GDPR would pose to its business. In compliance with the aforementioned Accounting Standard, BGL was duty bound to make assessments of whether or not the intangible assets owned by it were required to be impaired or not from 2016 itself. The Interim Order records that BGL had declared itself compliant with GDPR in April 2018, and BGL in its response dated October 11, 2022, has stated that it did not test any assets during FY 2016-17 and 2018-19, in the context of asset impairment. Evidently no real assessment as mandated by Ind AS 36 (paras 9 and 12) had been done; if an assessment had in fact been done, the belated impairment at the end of 2019-20 would have been substantially recognized and disclosed much earlier. BGL in its response dated October 11, 2022, had submitted that the decision to impair assets was taken only after confirming that the assets will not be useful in future. In this regard, I note that GDPR was announced in April 2016 and was to come into effect from May 2018. The repeated contention of the Noticees that the GDPR changes came about in 2018 is totally misleading. As of April, 2016, there was no ambiguity about how GDPR would be implemented in 2018. All the conclusions reached much later by the company about the severe material adverse impact of GDPR on its business model were

apparent in 2016 itself. If the company was hoping that the announced GDPR would be modified prior to the implementation date of May 2018, the correct approach would have been to recognize and disclose the impairment at the end of the relevant reporting period, and then reverse the impairment loss in accordance with paras 110/ 111 of Ind AS 36 (reproduced later below), if there were a favourable change in regulations later. A hope of a future modification of an already announced regulatory measure cannot be a justification to not recognize its impending deleterious impact. As it transpired, when GDPR came into effect in 2018 as announced in 2016, as the company's statement shows, it had a severe impact on the business, as expected. I find that there is no justification for BGL's failure to carry out annual impairment testing for FYs 2016-17, 2017-18 and 2018-19. I therefore find that BGL has violated Regulation 48 of the LODR Regulations read with paras 4, 9 and 12 of the Ind AS 36. Paras 110 and 111 of the Ind AS 36 are reproduced below for reference:

"110. An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

111. In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) there are observable indications that the asset's value has increased significantly during the period.

(b) significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.

(c) market interest rates or other market rates of return on Investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal sources of information

(d) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs.

(e) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected."

(b) BGL recognized impairment of assets of INR 868.30 crores in FY 2019-20 under OCI in contravention of applicable accounting standards

40. The Interim Order cum SCN alleges that BGL recognized impairment of assets of INR 868.30 crores under “Other Comprehensive Income (OCI)” (refer Image 2 below) instead of recognizing the same in profit or loss which resulted in non-compliance with Ind AS 36 in the financial statements for the FY 2019-20. It may be noted that while OCI is recorded below the line in the statement of Profit & Loss (in accordance with Ind AS 36), it is not recognized in profit or loss. The Interim Order cum SCN further alleges that by not recognizing the impairment loss in profit or loss, BGL overstated its Profit Before Tax (PBT) and Profit After Tax (PAT).

Image 2: Consolidated P&L statement of BGL for the year ending on March 31, 2020

Statement of Consolidated Profit and Loss for the year ended 31st March 2020			
Particulars	Note	Year Ending 31/03/2020	Year Ending 31/03/2019
		Rupees	Rupees
REVENUE			
I. Revenue from operations	27	26,923,183,759	25,802,409,484
II. Other income	28	141,467,665	(25,135,722)
III. Total revenue (I+II)		27,064,651,424	25,777,273,762
IV. EXPENSES			
Purchase / Cost of Revenue	29	15,112,609,171	14,543,037,135
Employee Benefit expenses	30	1,608,642,294	1,585,137,746
Other Operating Expenses	31	2,313,694,391	2,080,798,977
Financial costs	32	62,980,041	131,769,787
Depreciation and amortization expense	4	1,795,299,751	1,351,019,468
Total expenses (IV)		20,893,225,648	19,691,763,113
V. Profit/(loss) before tax (III-IV)		6,171,425,776	6,085,510,649
VI. Tax expense			
Current tax		1,775,577,108	1,640,262,179
Deferred tax		(5,198,637)	5,487,422
VII. Profit/(loss) for the period (V-VI)		4,401,047,305	4,439,761,048
VIII. Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of the defined benefit plan (net of tax)		(11,384,193)	(10,722,656)
Items that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		2,520,439,691	1,474,153,637
Asset impaired during the year		(8,683,054,265)	4,117,661,490
IX. Total comprehensive income for the period (VII+VIII)		(1,772,951,462)	1,785,530,539

41. I note that impairment loss is recorded for an asset when the carrying amount exceeds the recoverable amount. Para 60 and 61 of Accounting Standard 36 mandates that impairment loss must be immediately recognized in profit or loss and not in “other comprehensive

income” (Note: Other comprehensive income is not considered for computing profit or loss).

The said paras are reproduced below for reference:

“60. An Impairment loss shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in Ind AS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

61. An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment on a revalued asset is recognized in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset”.

Recognition of impairment loss in ‘other comprehensive income’ is permissible only if the asset has been previously revalued and that too only to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. I note that BGL has not claimed that it had revalued its assets earlier. Also, on examination of the audited financial statements of FYs 2014-15 to 2019-20, I note that there were no disclosures pertaining to revaluation surplus in relation to any asset during the aforesaid financial years. The justification that BGL has provided for its failure to impair the assets is that it wanted to upgrade its products to meet GDPR requirements; that the decision to impair assets was taken only after confirming that the assets will not be useful in future. BGL has also submitted that there was an observation period of about one year to evaluate the effectiveness of the changes made which according to it is “the standard protocol for global software system changes”. According to BGL, the audit committee of BGL subsequently recommended that all products be tested for impairment at their respective locations, which was conducted in FY 2019-20, and the financials of all subsidiaries made provision for impairment in that year. I find that there is no such provision of “observation period” specified in the accounting standards. As noted earlier, Ind AS 36 mandates that the impairment loss must be immediately recognized at the end of the reporting period for non-revalued assets. Since the GDPR was announced in April 2016, BGL should have impaired its assets in FY 2016-17 itself, and if the company wished to reverse the impairment loss it could have done so later, in accordance with the provisions of Ind AS. At any rate, even after the pre-announced GDPR formally came into effect in May 2018, the company failed to recognize any impairment even in FY 2018-19. The material and severe impairment that was apparent and should have been recognized as of March 2017, or in the least March 2019, was eventually recognized belatedly and only below the line (and not

in the profit and loss) as of March 2020, keeping stakeholders including public shareholders in the dark for years together, to their detriment.

42. BGL has also argued that the impairment loss of INR 868.30 crore which was due to enactment of GDPR was a one-time extraordinary item (i.e. due to change in law) and not a recurring one/ not related to the operating efficiencies of the firm. This argument, in my view, is of no consequence since the relevant accounting standard i.e. Ind AS 36 does not make a distinction between 'one time' and 'recurring impairments'.
43. Another submission that BGL has made is that the impairment of assets of INR 868.30 crore is related to the subsidiaries of BGL and they have been recognized in their respective financial statements. Therefore, according to BGL, if the impairment losses are not expected to have a direct impact on the parent company's (i.e. BGL's) financial performance, it is appropriate to recognize them in OCI. BGL regards this interpretation as resulting from "*an application of the principles of the standard*". According to BGL, an entity can recognize impairment losses in OCI or in the profit and loss account under Ind AS 36, depending on the nature of the asset and the expected impact of the impairment on the entity's financial performance. In this regard, I note that Ind AS 36 does not make a distinction between 'direct' and 'indirect' impact on the parent company's financial performance which would justify BGL recognizing the impairment losses in OCI. Further, Ind AS 36 does not prescribe a different treatment depending on the nature of the asset and the expected impact of impairment on the entity's financial performance. Also, the Noticees have not elaborated on the "principles" of Ind AS 36 that they are choosing to rely on. When the text of Ind AS 36 is amply clear, it would be incorrect to give precedence to a self-serving and vague imagination of ambiguous and non-documented so-called 'principles' behind Ind AS.
44. The Interim Order cum SCN records that the total assets impaired due to GDPR amounting to INR 868.30 crore included products classified under 'Other current assets' amounting to INR 504.50 crore and under 'Loans and advances' given to service providers / publishers amounting to INR 363.80 crore. In this regard, BGL has submitted that the write-off of loans or advances does not necessarily trigger an impairment of other assets in Company's financial statements. Further, BGL has argued that the criteria for recognizing write-offs of

loans and advances are set out in IFRS 9 and Ind AS 109, according to which loans and advances must be assessed for impairment on a periodic basis and a loss to be recognized when the impairment is expected to be 'permanent'. It appears that the Noticees contend that the mandate to impair OCA as per Ind AS 36 is not applicable for 'Loans and Advances', since they are 'financial assets'. This argument is not tenable. As per the explanation provided by BGL to the Forensic Auditor, the impaired 'Loans and advances' were extended by BGL's subsidiaries to vendors for colocation centres and to service providers such as algorithm developers, publishers, brand development in geographies and new market development. Such 'trade advances' for which the future economic benefit is the receipt of goods or services are not 'financial assets' therefore, Ind AS 109 has no application herein. The applicable accounting standard for impairment of "trade advances" (which are current assets) would be Ind AS 36.

- 45.** I note that had the impairment losses of these assets been recognized in profit or loss, the profit before tax for FY 2019-20 would have been a loss of INR 251.16 crores as against profit of INR 617.14 crores. In this regard, Noticees have submitted that the financial statement was prepared by the Company and was submitted to the statutory auditor. The Noticees have contended that the statutory auditor carried out the audit and certified that the financial results show true and fair view of the financial position of the Company. Further, they have stated that there are no findings of collusion between the company, directors / promoters and the auditors to warrant allegation of violation of provisions of SEBI Act and PFUTP Regulations which is a serious charge. I note that any failure of the statutory auditors to ensure that BGL's financial statements were true and fair would not absolve the Company from its alleged infraction. The primary responsibility under the LODR Regulation of ensuring that the financial statements gave a true and fair view is on the listed Company.
- 46.** In the context of the aforesaid submission by the noticees, I note that SEBI had forwarded a reference to National Financial Reporting Authority ("NFRA") against the statutory auditors of BGL namely, M/s PCN & Associates (FYs 2017-18 to 2019-20) and M/s. P Murali & Co. (FY 2014-15 to 2016-17). Vide order dated April 26, 2024, monetary penalty and debarment was imposed on M/s PCN & Associates and CA Gopala Krishna Kandula, the Engagement Partner for non-cooperation with the proceedings before NFRA. With respect to NFRA proceedings against M/s. P Murali & Co., it is understood that a writ petition against

the said proceedings is pending for determination before the Hon'ble High Court of Telangana.

47. In summary, I do not find any merit in the defenses or justifications put forth for not complying with paras 60 and 61 of Ind AS 36. In fact, the failure to immediately recognize the impairment loss in profit and loss statement directly resulted in publication of inflated profits. Thus, I find that BGL has violated Regulation 48 read with paras 60 and 61 of the Ind AS 36.

(c) BGL failed to disclose events and circumstances that led to impairment loss

48. The Interim Order cum SCN alleges that BGL did not make disclosure in respect of the events and circumstances that led to recognition of impairment loss of INR 868.30 crores in FY 2019-20, contrary to the requirement under Ind AS 36. The Interim Order cum SCN also states that Mr. Suresh Kumar Reddy (Noticee 2), CMD of BGL, before the IA on March 17, 2022, agreed with SEBI's observations that the disclosures required under Para 130 of Ind AS 36 were not made by BGL. An appropriate explanation would have belatedly explained to stakeholders the deleterious impact of the GDPR which had been enacted as early as April 2016.

49. In this regard, paragraph 130 of Ind AS 36 (Impairment of Assets) reads as follows:

"130. An entity shall disclose the following for an individual asset (including goodwill) or cash-generating unit, for which an impairment loss has been recognised or reversed during the period:

(a) the events and circumstances that led to the recognition or reversal of the impairment loss."

50. In this regard, the Noticees have submitted that assets impaired during FY 2019-20 amounting to INR 868.30 crores were disclosed on page 159 of annual report of FY 2019-2020. Further, they have stated that the recognition of impairment of assets was disclosed in the auditor's report in para (5) in page 153 of annual report of FY 2019-2020. I note that page 159 of the annual report for FY 2019-20 is the consolidated P&L statement of BGL which merely lists INR 868.30 crores as "Assets impaired during the year" under OCI. The disclosure in the auditor's report also merely states that current assets of subsidiaries amounting to INR 868.30 crores were written off. These disclosures do not explain events or circumstances which led to recognition of Rs 868.30 crores. Further, I note that such disclosure on events and circumstances needs to be made in the financial statements by

the “entity” i.e, BGL in this case and not the auditor’s report, as per Ind AS 36. Thus, I find that by not making the aforesaid material disclosures, BGL has violated regulation 48 of the LODR Regulations read with para 130 of Ind AS, to the detriment of its stakeholders including public shareholders.

(ii) Impairment loss of investment in subsidiary amounting to INR 411.76 crores in FY 2018-19

51. Ybrant Media Acquisition Inc. (“YMA”) is one of the subsidiaries of BGL. BGL in its standalone financial statements for FY 2018-19 reported an investment of INR 126.52 crore in its wholly owned subsidiary YMA (refer **Image 3** below) and in its consolidated financial statements for FY 2018-19, it recorded a write off of INR 411.67 crores pertaining to YMA (refer **Image 4** below).

Image 3: Note no. 6 pertaining to item “Investments- Non-Current” in standalone balance sheet of BGL as on March 31, 2019

NOTE NO. 6 : INVESTMENTS - NON CURRENT			
S.No.	Particulars	As at 31st March 2019	As at 31st March 2018
		Rupees	Rupees
	Investments - Non- Current		
	(a) Investment in Equity Instruements at cost		
I	(i) Subsidiaries (Unquoted)		
	Frontier Data Management Inc. USA	1,29,84,77,349	1,29,84,77,349
	International Expressions Inc. USA	1,04,53,63,208	1,04,53,63,208
	Online Media Solutions Limited , Israel	51,78,81,121	51,78,81,121
	Ybrant Media Acquisition Inc. USA	1,26,52,40,000	1,26,52,40,000
	Dream Ad Group	54,32,40,000	54,32,40,000
	Max Interactive Pty Ltd., Australia	41,74,90,000	41,74,90,000
	Dyomo Corporation .USA	4,67,300	4,67,300
	Ybrant Digital Services De Publicidade Ltda,Brazil	2,65,932	2,65,932
	Ybrant Digital (Brasil) Ltd., Singapore	45	45
	LGS Global FZE, UAE	2,43,650	2,43,650
	LIL Projects Private Limited	99,980	99,980
	Yreach Media Pvt.Ltd	99,000	99,000
	(ii) Joint venture (Unquoted)		
	Apollo Lycos Netcommerce Ltd	-	14,70,000
	Total Investments Non- Current	5,08,88,67,585	5,09,03,37,585

Image 4: Consolidated P&L statement of BGL for the year ending on March 31, 2019

Statement of Consolidated Profit and Loss for the year ended 31st March, 2019			
Particulars	Note	Year Ending	Year Ending
		31/03/2019	31/03/2018
		Rupees	Rupees
REVENUE			
I. Revenue from operations	27	25,80,24,09,484	24,20,74,30,562
II. Other income	28	(2,51,35,722)	(45,87,905)
III. Total revenue (I+II)		25,77,72,73,762	24,20,28,42,657
IV. EXPENSES			
Purchase / Cost of Revenue	29	14,54,30,37,135	13,66,32,51,799
Employee Benefit expenses	30	1,58,51,37,746	1,47,41,87,981
Other Operating Expenses	31	2,08,07,98,977	1,93,24,73,146
Financial costs	32	13,17,69,787	14,79,57,375
Depreciation and amortization expense	4	1,35,10,19,468	1,08,14,97,629
Total expenses (IV)		19,69,17,63,113	18,29,93,67,930
V. Profit/(loss) before tax (III-IV)		6,08,55,10,649	5,90,34,74,727
VI. Tax expense			
Current tax		1,64,02,62,179	1,84,55,01,228
Deferred tax		54,87,422	(1,20,89,350)
VII. Profit/(loss) for the period (V-VI)		4,43,97,61,048	4,07,00,62,849
VIII. Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of the defined benefit plan (net of tax)		(1,07,22,656)	(1,06,63,386)
Items that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		1,47,41,53,637	10,79,61,238
Loss on Investment written off		4,11,76,61,490	
Share of profit from Joint venture		-	(8,15,100)
IX. Total comprehensive income for the period (VII+VIII)		1,78,55,30,539	4,16,65,45,601
Earnings per share			
(1) Basic (in Rs.)		9.32	8.55
(2) Diluted (in Rs.)		9.32	8.55

- 52.** YMA also had recorded an impairment of INR 411.76 crores in FY 2018-19 in its balance sheet and P&L statement. The Interim order cum SCN records that that YMA had filed for bankruptcy in 2016 and the same was confirmed by statutory auditors in their report on audited financial statements for FY 2016-17. From examination of YMA's financial statements, it was observed that YMA had negative equity in FY 2018-19 of INR 95.51 crores and in FY 2019- 20 of INR 104.10 crores i.e. the total liabilities exceeded its assets resulting in negative net worth. The excerpts of YMA's financials for FY 2018-19 and 2019-20 from BGL's annual reports are provided below.

Image 5: Financials of YMA from BGL's Annual Report 2018-19

Ybrant Media Acquisition Inc USA

S.No	Description	Amount In	Amount In
		INR	USD
a)	Share Capital	1,21,90,40,000	2,70,00,000
b)	Reserves and Surplus	(2,17,41,88,787)	(4,08,08,715)
c)	Total Assets	56,38,83,958	81,52,146
d)	Total Liabilities	56,38,83,958	81,52,146
e)	Details of Investments	NIL	NIL
f)	Turnover	-	-
g)	Profit before tax	-	-
h)	Provision for tax	-	-
i)	Profit After Tax	-	-
	Other comprehensive income for the period	(4,17,64,90,428)	7,40,91,033
	Total comprehensive income for the period	(4,17,64,90,428)	(7,40,91,033)
j)	Proposed Dividend	NIL	NIL

Image 6: Financials of YMA from BGL's Annual Report 2019-20

Ybrant Media Acquisition Inc USA

S.No	Description	Amount In	Amount In
		INR	USD
a)	Share Capital	1,219,040,000	27,000,000
b)	Reserves and Surplus	(2,260,078,992)	(40,808,715)
c)	Total Assets	614,590,308	8,152,146
d)	Total Liabilities	614,590,308	8,152,146
e)	Details of Investments		
f)	Turnover		
g)	Profit before tax		
h)	Provision for tax		
i)	Profit After Tax		
	Other comprehensive income for the period	(85,890,205)	-
	Total comprehensive income for the period	(85,890,205)	
j)	Proposed Dividend	NIL	NIL

53. The details regarding the same as provided in the auditor's report section of BGL's Annual Report for FY 2018-19 is given below.

Image 7: Extract from Independent Auditor's report in BGL's Annual Report for FY 2018-19

f) The Subsidiary company M/s. Ybrant Media Acquisition Inc has acquired M/s. Lycos Inc.

M/s. Ybrant Media Acquisition Inc has failed to pay part consideration of USD 16 Million for acquisition of M/s. Lycos Inc., to Daum Global Holdings Corporation and the district court of New York has given judgment to handover back 56 % equity in M/s. Lycos Inc to M/s. Daum Global Holdings Corporation. In the current financial year M/s. Ybrant Media Acquisition Inc has written off its investment in M/s. Lycos Inc., an amount of USD 38 Million in the statement of profit & loss under the head other comprehensive income and the outstanding liability of USD 16 Million is continuing in the financials as the dispute still going on. Also the Reserves which are in existence as at 1st April 2018 in respect of previous financial year consolidation of Lycos Inc., into Ybrant Media Acquisition Inc has been written off in the current financial year 2018-2019 amounting to Rs. 244.06 crores.

- 54.** BGL had earlier informed vide its letter dated November 11, 2021 that the write off of YMA pertained to an acquisition of a company named Lycos Inc. The part consideration of the company sought to be acquired was not paid, and hence, the district court of New York granted receivership of Lycos Inc. to its original company. Therefore, the profits earned by the subsidiary after acquisition and initial goodwill amounting to INR 411.76 crores were written off.
- 55.** With respect to the impairment loss of investment in the subsidiary amounting to INR 411.76 Crores in FY 2018-19, the Interim Order cum SCN alleges the following:
- (a)** BGL failed to recognize impairment loss in its standalone financial statement.
 - (b)** BGL recognized impairment of assets of INR 411.76 crores in FY 2018-19 incorrectly under Other Comprehensive Income (OCI) in contravention of applicable accounting standards.
 - (c)** BGL failed to disclose events and circumstances that led to impairment loss of INR 411.76 crores in FY 2018-19.
- (a) BGL failed to recognize impairment loss in its standalone financial statement
- 56.** The Interim Order cum SCN stated that the carrying amount of investment in separate financial statements of BGL exceeded the carrying amounts of the investee's, i.e, Ybrant Media Acquisition Inc. ("YMA") net assets in the consolidated financial statements. Therefore, it has been alleged that BGL should have impaired its investment in the

subsidiary YMA in the FY 2018-19 in its standalone financial results, which it should have continued to maintain in the financial statements for the FY 2019-20 also, since the net worth of YMA continued to be negative in FY 2019- 20. The allegation is based on the mandate of para 12 of Ind AS 36 dealing with impairment of assets. Paragraph 12 of Ind AS 36 (Impairment of Assets) *inter alia* reads as follows:

“In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

...

Dividend from a subsidiary, joint venture or associate

(h) for an investment in a subsidiary, joint venture or associate, the investor recognizes a dividend from the investment and evidence is available that:

(i) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee’s net assets, including associated goodwill; or

(ii)”

57. BGL in its letter to SEBI dated March 03, 2022 stated that it is in the process of negotiating final settlement which will bring the asset “Lycos Inc” back to the Brightcom group. I also note that the statement of M. Suresh Kumar Reddy (Noticee 2), CEO and MD of BGL, recorded before the IA on March 17, 2022, stated that the acquisition of Lycos was expected to be completed by October/ November 2022 and that since the management was in the final stages of settling the final payment for the said acquisition, they strongly believed that the said asset would return to the Group’s/ company’s control. However, I note that they have not furnished any document supporting this claim till date except for submitting a draft settlement agreement, which is neither dated nor signed. In his submissions during the course of the quasi-judicial proceedings, Noticee No. 2 has again stated that BGL is renegotiating a final settlement where all legal disputes are withdrawn and all the shares will be transferred back to BGL. No evidence corroborating these claims have been placed before me in this regard.

58. I note that the carrying amount of BGL’s investment in YMA, as disclosed in the separate financial statement of BGL, and the net assets of YMA, as disclosed in BGL’s consolidated financial statement for FY 2018-19 and 2019-20 are as follows:

Table no. 8

(INR Crore)		
Particulars	As at March 31, 2019	As at March 31, 2020
Investment in YMA in the separate financial statements BGL	126.52 <i>Source: Note No.6 at page 63 of Annual Report for the FY 2018-19</i>	126.52 <i>Source: Note No.6 at page 128 of Annual Report for the FY 2019-20</i>
Net assets of YMA in the consolidated financial statements of BGL	(95.51) <i>Source: Annexure-B at page 112 of Annual Report for the FY 2018-19</i>	(104.10) <i>Source: Annexure-B at page 207 of Annual Report for the FY 2019-20</i>

59. I note that Ind AS 36 requires an entity to consider the carrying amount of investment in its separate financial statements and consolidated financial statement as one of the criteria for impairment assessment. Obviously therefore in the facts of this case, when the carrying amount of the investment (YMA) in BGL's separate financial statement exceeded the carrying amounts of the investee's (YMA's) net assets in BGL's consolidated financial statements, BGL should have impaired its investment in its standalone financial statements in FYs 2018-19 and FY 2019-20. In fact, while not specifically alleged in the SCN, given that YMA had declared bankruptcy in 2016, impairment should have been suitably recognised in 2016 itself. Be that as it may, as discussed earlier, Ind AS 36 requires impairment loss to be given effect immediately in profit or loss if the asset is not revalued. Since no revaluation had been done, the contentions of the Noticee with respect to ongoing settlement and 'bringing back of the asset' to Brightcom group, are simply not tenable or substantiated. In any case, hopes and prayers for a favourable resolution tomorrow cannot be the basis to avoid adherence to basic accounting standards today. Therefore, I find that BGL violated Regulation 48 of the LODR Regulations read with para 12 of Ind AS 36.

(b) BGL recognized impairment of assets of INR 411.76 crores in FY 2018-19 under OCI in contravention of applicable accounting standards

60. The Interim Order cum SCN alleges that BGL recognized impairment loss of Rs 411.76 crores under "Other Comprehensive Income" instead of recognizing the same in profit or loss which resulted in non-compliance with Ind AS 36 (Paras 60 & 61) in the consolidated

financial statements for the FY 2018-2019. The Interim Order cum SCN further alleges that by not recognizing the impairment loss, BGL overstated its Profit Before Tax (PBT) and Profit After Tax (PAT).

61. I note that this allegation is similar to the allegation of incorrect accounting treatment of impairment loss due to GDPR discussed earlier in this Order. BGL has made similar submissions in respect of this allegation and therefore, all the discussions and observations made earlier in that context applies to this allegation as well. For instance, in support of its accounting treatment under OCI, the Noticees have argued that (1) the impairment of the financials of subsidiaries do not have a direct impact on the parent company's financial performance, (2) impairment losses in OCI or in the profit and loss account depends on the nature of the asset and the expected impact of the impairment as per Ind AS 36, and that (3) BGL had applied the "principles" of the standard. As discussed earlier-

(i) Ind AS 36 does not make a distinction between direct and indirect impact on the parent company's financial performance which would justify BGL recognizing the impairment losses in OCI;

(ii) Ind AS 36 does not prescribe a different treatment depending on the nature of the asset and the expected impact of impairment on the entity's financial performance;

(iii) With respect to the noticees' reliance on 'principles' of the standard, the noticees have not elaborated on their submission. In any case when the letter of the law is unambiguous, their contention in this regard is simply not tenable.

62. I note that had the impairment losses of these assets been recognized in profit or loss, the profit before tax for FY 2018-19 would have been INR 196.79 crores as against profit of INR 608.55 crores. The submission of the Noticees in this regard have already been dealt with in paragraph 45.

63. In view of the above, I find that BGL's incorrect accounting treatment of impaired assets in the consolidated financial statement, under OCI instead of profit or loss in accordance with Ind AS 36, led to overstatement of its profit in FY 2018-19.

(c) BGL failed to disclose events and circumstances that led to impairment loss

64. The Interim Order cum SCN alleged that BGL did not make disclosure in respect of the events and circumstances that led to impairment of INR 411.76 crores in FY 2018-19,

contrary to the requirement under Ind AS 36. The Interim Order cum SCN also takes note of the acknowledgment by Noticee 2 of BGL's failure to make disclosures mandated by Para 130 of Ind AS 36. The said para reads as follows:

*"130. An entity shall disclose the following for an individual asset (including goodwill) or cash-generating unit, for which an impairment loss has been recognised or reversed during the period:
(a) the events and circumstances that led to the recognition or reversal of the impairment loss. "*

65. Ind AS 36 requires an entity to disclose the events and circumstances that led to recognition of impairment loss when the impairment loss is recognized. In this regard, Noticees have submitted that the loss on investment, which was written off, has been explicitly disclosed on page 85 of the Annual Report for the FY 2018-2019. They have also argued that the mandate was complied with since the events and circumstances leading to the recognition of impairment losses were disclosed in the auditor's report seen in in paragraph (f) on page 81 of the Annual Report for the FY 2018-2019. I note that page 85 of the annual report for FY 2018-19 contains the consolidated P&L statement of BGL which merely lists Rs 411.76 crores as "Loss on investment written off" under OCI. The said disclosure does not explain events or circumstances which led to recognition of this material impairment of Rs 411.76 crores. Further, I find that disclosure of events and circumstances which led to recognition of impairment losses in auditor's report at page 81 of the Annual Report for FY 2018-19 is not in line with Ind AS 36, which requires such disclosure to be made by an "entity" i.e, BGL in its financial statements.

66. In view of all of the conclusions arrived at above, I find that BGL failed to –

- (i) carry out annual impairment testing for FYs 2016-17, 2017-18 and 2018-19;
- (ii) recognize impairment of assets of INR 868.30 crore in FY 2019-20 into profit and loss for the period, which led to overstatement of gross profit to the same extent;
- (iii) fully disclose events and circumstances that led to impairment loss of INR 868.30 crore in FY 2019-20;
- (iv) recognize impairment loss of investment in BGL's subsidiary in BGL's standalone financial statement in FY 2018-19;
- (v) recognize impairment of assets of INR 411.76 crore in FY 2018-19 in profit and loss statement which led to inflation of gross profit to the same extent; and,

(vi) ensure disclosure of events and circumstances that led to impairment loss of INR 411.76 crore in FY 2018-19, in violation of Regulation 4(1)(a), (b), (c), (d), (e), (g), (h), (i), (j), 4(2)(e)(i), 33(1)(c) & 48 of SEBI(LODR) Regulations, 2015 (reproduced below).

LODR Regulations

“CHAPTER II PRINCIPLES GOVERNING DISCLOSURES AND OBLIGATIONS OF LISTED ENTITY

Principles governing disclosures and obligations.

4. (1) The listed entity which has listed securities shall make disclosures and abide by its obligations under these regulations, in accordance with the following principles:

(a) Information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosure.

(b) The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.

(c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.

(d) The listed entity shall provide adequate and timely information to recognised stock exchange(s) and investors.

(e) The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made thereunder, are adequate, accurate, explicit, timely and presented in a simple language.

(g) The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognised stock exchange(s) in this regard and as may be applicable.

(h) The listed entity shall make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.

(i) Filings, reports, statements, documents and information which are event based or are filed periodically shall contain relevant information.

(j) Periodic filings, reports, statements, documents and information reports shall contain information that shall enable investors to track the performance of a listed entity over regular intervals of time and shall provide sufficient information to enable investors to assess the current status of a listed entity.

(2) The listed entity which has listed its specified securities shall comply with the corporate governance provisions as specified in chapter IV which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below:

(e) Disclosure and transparency: The listed entity shall ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the listed entity, in the following manner:

(i) Information shall be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure

CHAPTER IV OBLIGATIONS OF LISTED ENTITY WHICH HAS LISTED ITS SPECIFIED SECURITIES

Financial results.

33. (1) While preparing financial results, the listed entity shall comply with the following:

(c) The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India:

Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

Accounting Standards.

48. The listed entity shall comply with all the applicable and notified Accounting Standards from time to time.”

PART II: Other accounting standards violations

(i) Wrong capitalization of R&D costs as assets

67. The Interim Order cum SCN alleges that BGL's product development expenditure was not recognized as an expense but was capitalized as assets in violation of accounting standards. Specifically, it alleges:

- (i) All the expenses incurred towards salaries, software, tools and hardware during the concept, design and prototype building stage were classified as 'Other Current Assets'. These stages could not be clearly distinguished into the research and development phase (*according to BGL*), and hence, should have been treated as if they were incurred in the research phase only, and accordingly treated as expenses when they are incurred.
- (ii) Once the prototype was complete, the product / component then had to move to testing and soft launch stage which would fall into development phase. However, in addition to the expenses related to this development phase, portion of "Other Current Assets" (i.e. expenses incurred during research phase which should have been treated as expenses) relevant to each product / component for which testing and soft launch was completed, also got recognized as "Intangible Assets under Development and Capital Work in Progress". The same was not in accordance with AS 26 and IND AS 38.

68. In this regard, I note that standards relating to internally generated assets are dealt in paragraphs 39 to 54 of AS 26 (Intangible Assets) and paragraphs 51 to 67 of Ind AS 38 (Intangible Assets). Some important definitions and standards from AS 26 are reproduced below:

"6.5 Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

6.6 Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

40 If an enterprise cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the enterprise treats the expenditure on that project as if it were incurred in the research phase only.

41. No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred. (emphasis supplied)

44. An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
 - (b) its intention to complete the intangible asset and use or sell it;
 - (c) its ability to use or sell the intangible asset;
 - (d) how the intangible asset will generate probable future economic benefits. Among other things, the enterprise should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
 - (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
 - (f) its ability to measure the expenditure attributable to the intangible asset during its development reliably.
-”

69. Some relevant clauses from Ind AS 38 are reproduced below:

“Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

21. An intangible asset shall be recognised if, and only if:

- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost of the asset can be measured reliably.

22. An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

52. To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(a) a research phase, and

(b) a development phase.

Although the terms 'research' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Standard.

53. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research phase

54. No intangible asset arising from research (or from the research phase of an internal project) shall be recognised. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

56. Examples of research activities are:

(a) activities aimed at obtaining new knowledge;

(b) the search for, evaluation and final selection of, applications of research findings or other knowledge;

(c) the search for alternatives for materials, devices, products, processes, systems or services; and

(d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

57. An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) its intention to complete the intangible asset and use or sell it.

(c) its ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

59. Examples of development activities are:

(a) the design, construction and testing of pre-production or pre-use prototypes and models;

(b) the design of tools, jigs, moulds and dies involving new technology;

(c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and

(d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.”

70. From the accounting standards mentioned above, I note that in order to assess whether an internally generated intangible asset meets the criteria for recognition as such, an entity is required to classify the asset generation either as being in the research phase or as being in the development phase. In case an entity cannot distinguish the research phase from the development phase, the entity is required to treat the expenditure on that project as if it were incurred in research phase and accordingly account for it in its P&L statement (*paragraphs 40 and 41 of AS 26 and paragraphs 53 and 54 of Ind AS 38*). An intangible asset arising from development phase of an internal project should be recognized only if the enterprise can demonstrate certain criteria such as technical feasibility, intention to complete the asset, ability to use or sell asset, probable future economic benefits, availability of resources to complete the project and ability to measure expenditure attributable to the intangible asset (*see paragraph 44 of AS 26 and paragraph 57 of Ind AS 38*).

71. I note from the audited consolidated financial statements of BGL for the year ending March 31, 2020 that heads such as “Other Current Assets”, “Other Intangible Assets” and “Intangible Assets under Development” were recorded in its balance sheet. The policy of BGL as submitted to SEBI during investigation is reproduced below:

“Other Current Assets: All the expenses incurred towards Salaries, Software, Tools and Hardware during the Concept, Design and prototype building stage are classified as Other current assets

Intangible Assets Under Development and Capital Work in Progress: Once the prototype is build is complete, the product / component will then move to testing and soft launch stage. The soft launch is required to test for bugs and customer-level testing. The bug fixing is also part of this stage. In addition to the expenses related to this activity, portion of “Other Current Assets” relevant to each product / component for which testing and soft launch is completed will be moved to this head of account.

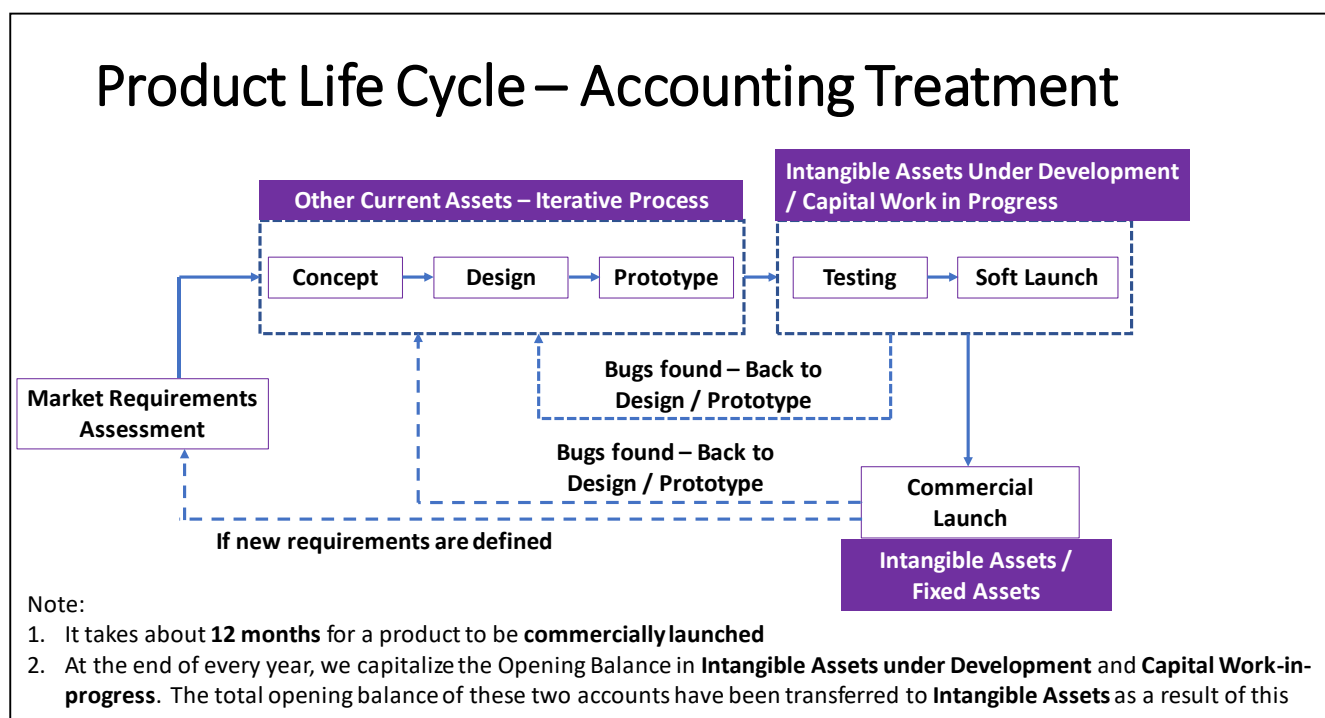
Other Intangible Assets / Fixed Assets: Once the product / component is commercially launched all the expenses related to the product / component are then classified / recognized as:

1.Fixed Assets: Expenditure related to Computer Equipment, Furniture & Fixtures, Software Licenses, Tools etc., will be recognized under this head

2. Other Intangible Assets: All the expenditure towards Salaries, Cost of Outsourced Services and other similar costs will be recognized under this head The monthly expenses incurred are maintained separately in Excel workbooks for Operational convenience. At the end of a given financial year each product / component will be in a different stage of development. At the year end, the status of each product / component is assessed, and the expenditure is classified into different heads of account by passing one single entry. This process is adopted consistently since inception.”

72. A flowchart explaining the product life cycle as submitted by CFO of BGL (Mr. S.L. Narayana Raju) is as under:

Image 8



- 73.** I note that the Noticees have not denied the allegation that the expenses incurred during the concept, design and prototype building stage were classified as “Other Current Assets” in the balance sheet even though these stages could not be clearly distinguished into research and development stages. Instead, the Noticees have submitted that it is “conventional” to consider the combined R&D cost as the product development cost in the IT industry as these phases cannot be segregated. In this regard, I note that the AS 26 and Ind AS 38 clearly state that if the asset generation could not be clearly distinguished into research and development phases, the expenses incurred should be treated as incurred in the research phase and accordingly accounted for in the P&L statement. Therefore, I do not find any merit in this contention.
- 74.** The Noticees have stated that BGL has subsidiaries in various countries and the capitalization of expenses was done as per applicable local law. They have argued that BGL only presents the consolidated financial statements of its subsidiaries without changing the accounting standards as applicable in each local subsidiary. In this regard, I note that Para B87 of Accounting Standard ‘*Ind AS110 -Consolidated Financial Statements*’ and Para 20 & 21 of ‘*Accounting Standard (AS) 21 Consolidated Financial Statements*’ require an Indian parent company having overseas subsidiaries to ensure that the books of accounts of such subsidiaries are maintained in such manner that would assist the management in the preparation of consolidated financial statements as per Indian GAAP/ Ind AS. This mandate is to be complied with irrespective of the statutory requirement with respect to the maintenance of books of account and audit of the standalone financial statements in the jurisdiction of their incorporation. Therefore, I find the aforementioned submission of the Noticees to be untenable.
- 75.** Further, though Noticees have submitted that BGL had evaluated each of the criteria for capitalization of expenses, I note that it has not adduced any evidence in support of its assertion. If BGL had such documentation available to prove that the said assets fell into “development phase” only and not into “research” phase, it had three opportunities - once before the forensic auditor, another before the investigating authority of SEBI and another during the current proceedings, to submit the relevant proof.

76. The Noticees have also submitted that BGL's management capitalized its R&D costs because they believed that the expenses incurred during its product development, including the R&D phases, met the criteria for capitalization under IAS 38. According to the Noticees, there is no difference between IAS 38 and Ind AS 38 or erstwhile AS 26 with regard to the accounting treatment of research and development costs. I note that the applicable accounting standard in India for FY 2014-15 and FY 2015-2016 is AS 26 and for FYs 2016-17 to FY 2019-20 is Ind AS 38. Reference to any other accounting standard such as IAS 38 under IFRS is irrelevant. Further, as explained above, since BGL as per its own admission, could not distinguish between research and development stages, it should have accounted for the same as expenses incurred under P&L statement.
77. Another allegation in the SCN is that a portion of "Other Current Assets" (i.e. expenses incurred during research phase which should have been treated as expenses) relevant to each product / component for which testing and soft launch was completed, were recognized as "Intangible Assets under Development and Capital Work in Progress" contrary to AS 26 and IND AS 38. The Noticees have not made any specific submission with respect to this allegation. I note that this allegation is borne out of BGL's accounting policy reproduced above. As noted above, BGL has incorrectly recognized research expense under "Other Current Assets". I also note that AS 26 and Ind AS 38 does not permit an entity to recognize an expense as a part of cost of an intangible asset at a later date (paragraph 71 of Ind AS 38).
78. By capitalizing its R&D costs of INR 504.49 crores (*basis aggregation of subsidiaries' standalone financial statements – see para 15 of the Interim Order*), BGL improperly moved these expenditures from P&L statement to its balance sheet, thereby reducing its current-period expenses and artificially inflating its profit. Accordingly, I find that the accounting policy followed by BGL that led to wrong capitalization of R&D costs as assets is in violation of AS 26 (for FYs 2014-15 and 2015-16) and Ind AS 38 (for FYs 2016-17 to 2019-20). Therefore, I find that BGL has violated Clause 50/ Regulation 48 read with AS 26 and Ind AS 38.

(ii) Incorrect recognition of intangible assets

79. The Interim Order cum SCN alleges that asset recognition practice at BGL was not in accordance with AS 26 (Intangible Assets) and Ind AS 38 (Intangible Assets) as each year,

the additions to the “Intangible Assets under Development” and “Capital Work-in Progress” were entirely transferred to “Intangible Assets” in the subsequent year. Further it alleges that the aforesaid was not the correct practice as it was unlikely that entire expenditure on concept stage was incurred on the very last day of the financial year which required BGL to transfer entire opening balance in “Capital Work-in Progress” or “Intangible Assets under Development” to “Intangible Assets” at the end of subsequent financial year. The same is shown in the tables below:

Table no. 9

Intangibles Under Development (Amount in INR, Crore)	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	FY2019-20
Opening balance	19	165	102	71	176	137
Add: Additions	165	102	71	176	137	132
Less: Sale/deletion	(19)	(165)	(102)	(71)	(176)	(137)
Closing balance	165	102	71	176	137	132

Capital Work-In-Progress (Amount in INR, Crore)	FY201415	FY2015-16	FY201617	FY201718	FY201819	FY2019-20
Opening balance	22	105	70	(0)	125	148
Add: Additions	105	70	0	125	148	136
Less: Sale/deletion	(22)	(105)	(70)	0	(125)	(148)
Closing balance	105	70	(0)	125	148	136

Intangible assets (Amount in INR, Crore)	FY201415	FY201516	FY2016-17	FY201718	FY201819	FY2019-20
Opening balance	219	243	466	548	518	500
Add: Additions	42	281	172	71	301	285
Less: Sale/deletion					(238)	
Less: Depreciation	(17)	(58)	(90)	(102)	(82)	(112)
Closing balance	243	466	548	518	499	673

80. I note that standards related to recognition of intangible assets is provided in paragraph 19 and 20 of AS 26 (Intangible Assets) which reads as follows:

“19. The recognition of an item as an intangible asset requires an enterprise to demonstrate that the item meets the:

(a) definition of an intangible asset (see paragraphs 6-18); and

(b) recognition criteria set out in this Standard (see paragraphs 20-54).

20. An intangible asset should be recognised if, and only if,

(a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and

(b) the cost of the asset can be measured reliably.”

81. Similarly, I note that paragraph 18 and 21 of Ind AS 38 (Intangible Assets) states the following:

18. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) the definition of an intangible asset (see paragraphs 8-17); and

(b) the recognition criteria (see paragraphs 21-23).

21. An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably”

82. I note from the above tables that:

(i) The additions during each year became the closing balance each year. For example, in FY 2016-17, the additions in “Intangibles under Development” was INR 71 crore, the same amount was the closing balance in the said year.

(ii) The opening balance each year became the sale/deletion each year. For example, in FY 2016-17, the opening balance of “Intangible Assets under Development” was INR 102 crore, the same amount was the amount of sale/deletion in the said year.

(iii) The addition each year under “Intangibles under Development” and “Capital Work-in-Progress” was transferred to “Intangible Assets” in the subsequent year. For example, in FY 2015-16, the additions to “Intangibles under Development” and “Capital Work in Progress” were INR 102 crore and INR 70 crore respectively and this was reflected in FY 2016-2017 “Intangible Assets” as addition of INR 172 crore.
(This pattern is seen across all financial years except in the case of FY 2014-15)

83. From the above, it can be seen that the additions to Intangibles under Development and Capital Work-in-Progress each year were transferred to Intangible Assets in the subsequent year. BGL in its reply before me has submitted that there is no requirement in the accounting

standards or SEBI regulations that entries must be passed individually or as and when the asset recognition criteria are met. In this regard, firstly, it must be clarified that SEBI has not alleged that there is a requirement for the entries to be passed individually. Secondly, I find that both AS 26 and Ind AS 38 explicitly state that an intangible asset should be recognized only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and that cost of the asset can be measured reliably. Thus, Noticees contentions in this regard are factually incorrect.

- 84.** I note that in relation to the above, BGL in its response during investigation vide email dated October 17, 2022 had stated that the average cycle time from the concept design stage till commercial launch is about 12 months. Therefore, BGL argues that at the end of every year, BGL capitalizes the opening balances in Intangible Assets under Development and Capital Work in Progress. Noticees have not produced before me any evidence to show that the product cycle from concept to commercial launch regularly/ inevitably took 12 months. Further, BGL vide letter dated October 11, 2022 had also stated that it keeps investing in its products on “continuous basis”, which indicates that the asset generation cycle would not necessarily coincide with the start and end of a financial year. The argument that an intangible asset under development or capital work in progress would transit into commercial launch phase in exactly 12 months with methodical precision year after year and accordingly represented in “Intangible Assets” (as demonstrated in the Tables above), is just implausible. Moreover, during investigation, the above explanation was found to contradict with the statement of Mr. Narayana Raju, the CFO of BGL, recorded before the IA on October 13, 2022, wherein he had admitted that each product/ service would have its own level of complexity and some cases might take between 90 to 180 days to meet GDPR Regulations and some other cases might take more than a year or two.
- 85.** Considering all of the above, I find that the asset recognition criteria as stated in AS 26 and Ind AS 38 was not being met for BGL to transfer the additions to Intangibles under Development and Capital Work-in-Progress each year to Intangible Assets in the subsequent year.
- 86.** In view of all of the conclusions arrived at above, I find that BGL -

- (a) Wrongly capitalized R&D expenditure as assets in contravention of AS 26 (for FY 2014-15 and 2015-16) and Ind AS 38 (for FYs 2016-17 to 2019-20); and,
- (b) Incorrectly recognized intangible assets in contravention of AS 26 (for FY 2014-15 and 2015-16) and Ind AS 38 (for FYs 2016-17 to 2019-20),
in violation of clauses 49 (I)(C)(1)(a) and 50 of the erstwhile Listing Agreement (reproduced below) for FY 2014-15 and regulation 4(1)(a), (b), (c), (d) (e), (g), (h), (i), (j), 4(2)(e)(i), 33(1)(c) and 48 of LODR Regulations (reproduced earlier) for FYs 2015-16 to 2019

Listing Agreement

“49. CORPORATE GOVERNANCE

I. The company agrees to comply with the provisions of Clause 49 which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below. In case of any ambiguity, the said provisions shall be interpreted and applied in alignment with the principles.

C. Disclosure and transparency

1. The company should ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the company.

a. Information should be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure.

50. The company will mandatorily comply with all the Accounting Standards issued by Institute of Chartered Accountants of India (ICAI) from time to time.”

(2) Whether BGL has violated various other provisions of the Listing agreement/ LODR Regulations?

A. NOT DISCLOSING THE INITIATION OF FORENSIC AUDIT TO STOCK EXCHANGES

- 87.** I note that regulation 30(1),(2),(6) and clause 17 of A of Part A of Schedule III of the LODR Regulations reads as follows:

“Disclosure of events or information.

30. (1) Every listed entity shall make disclosures of any events or information which, in the opinion of the board of directors of the listed company, is material.

(2) Events specified in Para A of Part A of Schedule III are deemed to be material events and listed entity shall make disclosure of such events.

(6) The listed entity shall first disclose to stock exchange(s) of all events, as specified in Part A of Schedule III, or information as soon as reasonably possible and not later than twenty four hours from the occurrence of event or information:

Provided that in case the disclosure is made after twenty four hours of occurrence of the event or information, the listed entity shall, along with such disclosures provide explanation for delay:

Provided further that disclosure with respect to events specified in sub-para 4 of Para A of Part A of Schedule III shall be made within the timelines specified therein.

SCHEDULE III PART A: DISCLOSURES OF EVENTS OR INFORMATION: SPECIFIED SECURITIES

A. Events which shall be disclosed without any application of the guidelines for materiality as specified in sub-regulation (4) of regulation (30):

#[17. Initiation of Forensic audit: In case of initiation of forensic audit, (by whatever name called), the following disclosures shall be made to the stock exchanges by listed entities: a) The fact of initiation of forensic audit along-with name of entity initiating the audit and reasons for the same, if available; b) Final forensic audit report (other than for forensic audit initiated by regulatory / enforcement agencies) on receipt by the listed entity along with comments of the management, if any.]

#Inserted by SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2020, w.e.f. 08.10.2020.”

- 88.** The Interim Order cum SCN alleges that SEBI vide its letter dated September 16, 2021, had appointed a forensic auditor in the matter of BGL, which was a material development in terms of regulation 30(1),(2),(6) read with clause 17 of A of Part A of Schedule III of the LODR Regulations. The fact of initiation of forensic audit ought to have been disseminated to the stock exchanges within 24 hours, however, BGL did not make the said disclosure within the specified time.
- 89.** In this regard, BGL has submitted that after it received the forensic audit initiation letter from SEBI on September 16, 2021, it requested SEBI to withdraw the forensic audit. On February 25, 2022, SEBI informed BGL that its request for withdrawal of forensic audit has not been acceded to and, therefore, according to BGL, it took immediate steps to comply with the directions made by SEBI in the letter dated September 16, 2021.

90. I note that BGL was required to make disclosure to the stock exchanges regarding initiation of forensic audit within 24 hours from receipt of information by SEBI. BGL received information from SEBI regarding the initiation of forensic audit on September 16, 2021. Yet, it disclosed such initiation only on February 28, 2022. Irrespective of whether BGL agreed with the initiation of the audit or not, the fact remains that it had been formally ordered by the regulator to initiate the audit, which was certainly a development warranting disclosure. Its correspondences with SEBI on the issue and the possibility of any change in the status of the forensic audit do not have a bearing on the need to disclose the original material development. The aforesaid act of BGL led to delay of nearly 165 days in disclosing this material information to stock exchanges. I note that SEBI had repeatedly asked BGL the reason for not disclosing details of forensic audit initiation *vide* emails dated October 12, 2021 and February 22, 2022. However, in spite of these repeated and explicit reminders, BGL only disclosed such initiation on February 28, 2022. The aforesaid disclosure was made after NSE and BSE were directed by SEBI to disseminate the SEBI letter dated September 16, 2021 captioned '*Forensic Audit Assignment in the matter of BGL*', on February 28, 2022. Thus, I find that BGL failed to comply with regulation 30 (1), (2) and (6) read with clause 17 of Para A, Part A, Schedule III of the LODR Regulations.

B. INCONSISTENT DISCLOSURE OF SHAREHOLDING PATTERN

91. Clause 35 of the erstwhile Listing Agreement (up to November 30, 2015) and Regulation 4(1) (c), (h), 31(1)(b) of LODR Regulations (reproduced below) reads as follows:

Listing Agreement

"35. The company agrees to file with the exchange the following details, separately for each class of equity shares/security in the formats specified in this clause, in compliance with the following timelines, namely :-

- a. One day prior to listing of its securities on the stock exchanges.*
- b. On a quarterly basis, within 21 days from the end of each quarter.*
- c. Within 10 days of any capital restructuring of the company resulting in a change exceeding +/-2% of the total paid-up share capital"*

LODR Regulations

CHAPTER II PRINCIPLES GOVERNING DISCLOSURES AND OBLIGATIONS OF LISTED ENTITY

Principles governing disclosures and obligations.

4. (1) The listed entity which has listed securities shall make disclosures and abide by its obligations under these regulations, in accordance with the following principles:

(c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.

(h) The listed entity shall make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.

CHAPTER IV OBLIGATIONS OF LISTED ENTITY WHICH HAS LISTED ITS SPECIFIED SECURITIES

Holding of specified securities and shareholding pattern.

31. (1) The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities, in the format specified by the Board from time to time within the following timelines -

(b) on a quarterly basis, within twenty one days from the end of each quarter; and,

92. The Interim Order cum SCN alleges that there were differences between the shareholding patterns filed by the Company with the stock exchange and the shareholding pattern available with the RTA. The shareholding data of depositories was consistent with RTA data. These inconsistencies are detailed in the Table below:

Table no. 10

Details of Promoter Shareholding						
Quarter Ending	Reported to Stock Exchanges (A)		As Per RTA Data (B)		Difference (A-B)	
	No. of Shares	% of PUC*	No. of Shares	% of PUC	No. of Shares	% of PUC
31-Mar-14	19,26,59,506	40.45	19,26,59,506	40.45	-	-
30-Jun-14	18,96,67,506	39.83	18,96,67,506	39.83	-	-
30-Sep-14	18,59,47,398	39.04	18,59,47,398	39.04	-	-
31-Dec-14	18,63,58,271	39.13	18,17,35,164	38.17	46,23,107	0.96
31-Mar-15	18,66,68,224	39.20	18,25,72,635	38.35	40,95,589	0.85
30-Jun-15	18,67,37,270	39.21	18,18,71,164	38.19	48,66,106	1.02
30-Sep-15	18,67,37,270	39.21	17,09,97,201	35.91	1,57,40,069	3.30
31-Dec-15	18,59,73,307	39.05	16,47,40,701	34.60	2,12,32,606	4.45
31-Mar-16	18,62,02,065	39.10	16,37,39,459	34.39	2,24,62,606	4.71
30-Jun-16	18,62,44,525	39.11	15,63,86,289	32.84	2,98,58,236	6.27
30-Sep-16	18,62,44,525	39.11	13,98,86,289	29.37	4,63,58,236	9.74
31-Dec-16	18,62,44,525	39.11	13,82,06,289	29.02	4,80,38,236	10.09
31-Mar-17	18,62,54,525	39.11	13,16,04,409	27.63	5,46,50,116	11.48
30-Jun-17	18,62,67,525	39.11	12,98,32,991	27.25	5,64,34,534	11.86
30-Sep-17	18,62,67,525	39.11	11,78,93,337	24.75	6,83,74,188	14.36
31-Dec-17	18,62,67,525	39.11	10,52,84,480	22.09	8,09,83,045	17.02
31-Mar-18	18,62,67,525	39.11	9,52,78,209	19.99	9,09,89,316	19.12

Details of Promoter Shareholding						
Quarter Ending	Reported to Stock Exchanges (A)		As Per RTA Data (B)		Difference (A-B)	
	No. of Shares	% of PUC*	No. of Shares	% of PUC	No. of Shares	% of PUC
30-Jun-18	18,63,77,685	39.13	9,17,00,851	19.24	9,46,76,834	19.89
30-Sep-18	18,63,87,685	39.14	9,15,10,851	19.20	9,48,76,834	19.94
31-Dec-18	18,64,27,685	39.14	8,81,50,397	18.50	9,82,77,288	20.64
31-Mar-19	18,64,27,685	39.14	8,72,39,703	18.31	9,91,87,982	20.83
30-Jun-19	18,64,27,685	39.14	8,55,79,139	17.96	10,08,48,546	21.18
30-Sep-19	18,64,27,685	39.14	8,32,71,522	17.48	10,31,56,163	21.66
31-Dec-19	18,64,27,685	39.14	7,21,00,911	15.13	11,43,26,774	24.01
31-Mar-20	18,64,27,685	39.14	6,65,32,378	13.96	11,98,95,307	25.18
30-Jun-20	18,64,27,685	36.72	6,05,14,136	11.90	12,59,13,549	24.82
30-Sep-20	18,66,27,685	36.76	5,63,03,372	11.07	13,03,24,313	25.69
31-Dec-20	18,66,27,685	36.76	5,23,70,400	10.30	13,42,57,285	26.46
31-Mar-21	18,66,27,685	36.76	3,67,97,633	7.24	14,98,30,052	29.52
30-Jun-21	18,66,27,685	36.76	3,57,88,133	7.04	15,08,39,552	29.72
30-Sep-21	23,32,84,604	22.40	4,36,85,916	4.19	18,95,98,688	18.21
31-Dec-21	23,32,84,604	22.40	4,29,24,541	4.12	19,03,60,063	18.28
31-Mar-22	22,36,81,791	18.47	4,24,31,791	3.51	18,12,50,000	14.96
30-Jun-22	37,27,82,652	18.47	7,06,99,321	3.51	30,20,83,331	14.96

*-PUC – Paid-Up Capital

The above table indicates that the promoters were holding less than what had been disclosed and consequently, public is holding more than that has been disclosed on the stock exchange.

93. In relation to the above, BGL has submitted before me that it had made appropriate disclosures to the stock exchange regarding the shares pledged (i.e. encumbrances) which is verifiable. According to BGL, as per the terms of the pledge agreement, the shares would be transferred to the account of the pledgee (lender). However, according to BGL, the beneficial ownership and voting rights of the shares would be with the promoters (pledgers) of BGL.
94. As already recorded in the SCN, information was sought from the depository vide email dated March 23, 2022 regarding encumbrances marked against the shares held by promoters of BGL. In response, the depositories submitted that except for 4 demat accounts, none of the demat accounts had any encumbrance. Further, on the said 4 demat accounts, the encumbrance was in the form of suspension (Debit)/ account freeze, pursuant to SEBI directions issued in 2019 for violating PIT Regulations. Further, BGL has not furnished copies of the relevant pledge agreement. During investigation, it was also noted that neither BGL nor promoters had made any disclosures under SEBI (Substantial

Acquisition of Shares and Takeovers) Regulations, 2011 and PIT Regulations in respect of shares pledged / invoked / transferred. I also note that BGL vide email dated October 21, 2022 had submitted the following to NSE:

“i. Prior to January 2021, various of our shares were pledged, and the same was executed through the transfer of shares to the lenders’ respective accounts. It is pertinent to mention that shares were transferred as per terms of agreement, where the voting rights of the shares were still with the promoters.....”

95. In this regard, paragraph 4.7 of the Master Circular for Depositories dated October 25, 2019 inter alia states that an “...off-market transfer of shares leads to change in ownership and cannot be treated as pledge....”. Further, as per section 10(1)(3) of the Depositories Act, 1996, a beneficial owner is entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by a depository. The above indicates that promoters of BGL had done off-market transfer of shares which is being referred to as pledge of shares. Thus, from the above, I note that there was no valid pledge created in respect of promoter shares of BGL. Hence, BGL’s submission is without merit.
96. Thus, from the above, I note that BGL filed incorrect shareholding pattern claiming that the shares of promoters were pledged when it was actually transferred. In view of the above, I find that BGL violated clause 35 of the erstwhile Listing Agreement (up to November 30, 2015) and Regulation 4(1) (c), (h), 31(1)(b) of LODR Regulations read with SEBI circular no. CIR/CFD/CMD/13/2015 dated November 30, 2015 (w.e.f December 01, 2015).

C. ISSUING A FALSE AND MISLEADING PRESS RELEASE ON APRIL 10, 2018, WITH RESPECT TO APPOINTMENT OF INTERNAL AUDITOR

97. The Interim Order cum SCN alleges that BGL published a press release dated April 10, 2018 on exchanges’ platform announcing the appointment of Ernst & Young (“EY”) as its internal auditor. However, in reality, EY was not appointed as the internal auditor.
98. In this regard, I note that the April 10, 2018 BGL press release, reads as follows:

“LYCOS (NSE & BSE: “LYCOS” or the “company”), the global Internet brand, today announced the appointment of Ernst & Young as its Internal Auditor. E&Y will help the company achieve trusted corporate governance and reporting.

LYCOS is one of the original and most widely known Internet brands in the world, evolving from pioneering search on the web, into a family of three business units covering digital media, marketing, and Internet of Things (IoT).

Ernst & Young will help us with a holistic view to improve the effectiveness of risk management, control, and governance.” said Suresh Reddy, Chairman & CEO of Lycos Internet Limited.”

- 99.** *Vide summons dated May 24, 2022, SEBI asked BGL to confirm whether it had carried out its internal audit for the period April 01, 2014 to March 31, 2020. BGL vide letter dated June 23, 2022 replied that “We did not appoint external firm to do the internal audit; rather, as permitted under Rule 13 of the Companies (Account) Rules, 2014, an internal audit team was constituted from amongst our employees in the accounts department and they conducted the internal audit.” BGL further informed that “In view of the circumstances that have now evolved, we have decided to appoint an Internal Auditor for the Company and the proposal for the same will be placed before the Board of Directors in their next meeting in July 2022.”*
- 100.** BGL also furnished its quarterly internal audit reports from which it was noted that the reports were not signed by the internal auditor. Also, the name of the auditor was not mentioned. Thus, it could not be ascertained if an external consultant had issued the internal audit report. Further, Mr. Narayana Raju, the CFO of BGL, during his statement recording on October 13, 2022, stated that he was not aware of engagement of EY as the Company’s internal auditor.
- 101.** BGL in its reply to the SCN has contended that it had appointed an internal auditor which is evident from its board resolution dated May 10, 2018. I have perused the contents of the said board resolution. Passing a board resolution by itself does not conclusively mean that BGL had appointed E&Y as internal auditors. Further, the board resolution was passed after the press release was issued. Therefore, it is evident that at the time of the press release, no internal auditor had been appointed.

102. I find that by making incorrect disclosure about appointing EY as internal auditor, BGL had misrepresented to stock exchanges and investors and violated regulation 4(1)(c) and (h) of LODR Regulations (reproduced above).

D. DID NOT CARRY OUT LIMITED REVIEW OR AUDIT OF QUARTERLY RESULTS FOR THE FY 2019-2020

103. Regulation 33(3)(h) of LODR Regulations states that *“The listed entity shall ensure that, for the purposes of quarterly consolidated financial results, at least eighty percent of each of the consolidated revenue, assets and profits, respectively, shall have been **subject to audit or in case of unaudited results, subjected to limited review**”*. Further, Regulation 33(8) states that: *“The statutory auditor of a listed entity shall undertake a limited review of the audit of all the entities/ companies whose accounts are to be consolidated with the listed entity as per AS 21 in accordance with guidelines issued by the Board on this matter.”* In accordance with the said regulations, the listed company has to ensure that its statutory auditor conducts an independent and a minimum review of the audited financial statements/ results of those entities whose financial statements/ results are consolidated with that of the listed entity’s.

104. The Interim Order cum SCN alleges that BGL did not carry out limited review of unaudited results for the quarters of FY 2019-2020. In this context, the quarterly consolidated results for the FY 2019-2020 reviewed by the statutory auditors and the details of results not subjected to audit/review as identified during investigation are reproduced below:

Table no. 11

All Figures in INR Crores					
I. Quarterly Results Reported by BGL					
Particulars	Reference	Jun-19	Sep-19	Dec-19	Mar-20
Type of Audit		Limited Review			Audit
Consolidated Revenue	A	574.98	629.57	859.52	628.25
Consolidated Profit After Tax	B	83.16	105.47	143.84	107.65
Consolidated Assets	C	3,465.54	3,712.96	3,755.96	3,270.00
II. Details obtained from Auditor's report					
No of Subsidiaries not reviewed/audited	D	14	14	16	14
Revenue of Subsidiaries not reviewed/audited	E	459.92	513.02	747.34	Not Specified
PAT of Subsidiaries not reviewed/audited	F	107.82	106.22	126.33	Not Specified
Assets of Subsidiaries not reviewed/audited	G	Not Specified	3,524.70	Not Specified	3,058.99
III. Observations based on II & III above					
% Revenue not reviewed/audited	H=E/A	79.99%	81.49%	86.95%	Not Ascertainable
% PAT not reviewed/audited	I=F/G	129.65%	100.71%	87.83%	Not Ascertainable
% Total Assets not reviewed/audited	J=G/C	Not Ascertainable	94.93%	Not Ascertainable	93.55%

It is alleged in the Interim Order cum SCN that a substantial portion of group business (in the range of 79.99% to 129.65% - Refer H to J above) during the FY 2019-20 was not subjected to limited review/audit.

105. In their reply to the above allegation, the Noticees have submitted that all the quarterly consolidated financial results, which consist of subsidiary financials for the period, for the quarters ended June 30, 2019, September 30, 2019, December 31, 2019, and March 31, 2020, have been reviewed and recommended by the audit committee and approved by the board of directors of the BGL which has been reported in the stock exchange.

106. I note that the limited review reports uploaded by BGL itself states that the financial information of the subsidiaries has not been reviewed by the auditor. The limited review report dated August 14, 2019 provided by PCN & Associates in respect of BGL available on the BSE Ltd. website titled “532368 | Outcome Of Board Meeting - Unaudited Financial Results For The Quarter Ended June 30, 2019”, *inter alia* states that:

“6) The Statement includes the interim financial information of 14 subsidiaries which have are (sic) not been reviewed, whose interim financial information reflect total revenue of INR 459.92 crores, total net profit after tax of INR 107.82 crores for the quarter ended 30 June 2019, respectively, as considered in the Statement. According to the information and explanations given to us by the Management, these interim financial information in respect of Frontier Data Management Inc., USA & International Expressions Inc., USA and Online Media Solutions Limited, Israel are material to the Group.

Our conclusion on the Statement is not modified in respect of the above matter.”

(emphasis supplied)

From the above, I note that the financial information of 14 subsidiaries of BGL (out of total 16 subsidiaries) were not subjected to limited review by the auditor in the unaudited quarterly results for June, 2019. The total consolidated revenue of BGL as per June, 2019 unaudited quarterly financial results was INR 574.98 crores, out of which revenue of subsidiaries not reviewed/audited amounted to INR 459.92 crores i.e, nearly 80% of revenue of BGL was not reviewed / audited for June, 2019.

107. The limited review report dated November 14, 2019 provided by PCN & Associates in respect of BGL available on the BSE Ltd. website titled “532368 | Un-Audited Financial Results For The Quarter And Half Year Ended September 30, 2019”, *inter alia* states that:

“5. The accompanying Statement includes interim financial results and other financial information of 14 Subsidiaries which reflects total assets of INR 3,524.70 crores as at September 30, 2019, total revenues of INR 513.02 crores and 972.94 crores total Profit after tax of INR 106.22 crores and 214.04 crores total comprehensive income of INR 183.73 crores and 284.95 crores. for the quarter ended September 30, 2019 and for the period from April 01, 2019 to September 30, 2019, respectively and net cash outflow of INR5.08 crores for the period from April 01, 2019 to September 30, 2019, and these interim financial results and other financial information has been reviewed by parent company Management and submitted to us. According to the information and explanations given to us by the Management, these interim financial information in respect of Frontier Data Management Inc..USA & International Expressions Inc., USA and Online Media Solutions Limited, Israel are material to the Group

Our conclusion on the Statement is not modified in respect of the above matter. “

(emphasis supplied)

From the above, I note that the financial information of 14 subsidiaries of BGL were not subjected to limited review by the auditor in the unaudited quarterly results for September, 2019 as the same were reviewed by BGL and then submitted to the auditor. The total consolidated revenue of BGL as per September, 2019 unaudited quarterly financial results was INR 629.57 crores, out of which revenue of subsidiaries not reviewed/ audited amounted to INR 513.02 crores i.e, nearly 81% of revenue of BGL was not reviewed/ audited for September, 2019.

108. The limited review report dated February 14, 2020 provided by PCN & Associates in respect of BGL available on the BSE Ltd. website titled “532368 | Results-Unaudited Financial Results For Quarter And Nine Months Ended December 31, 2019”, *inter alia* states that:

“5. The accompanying Statement includes interim financial results and other financial information of 16 subsidiaries which reflect Total Revenues of INR 747,54,13,807/-, Total Profit after Tax Rs 1,26,33,25,296/-, Total Comprehensive Income of INR 1,57,19,03,305/- for the quarter ended December 2019 and these interim financial results and other information has been reviewed by parent company Management and submitted to us. According to the information and explanations given to us by the Management, the interim financial in respect of Frontier Data Management Inc. USA & International Expressions Inc., USA and Online Media Solutions Limited, Israel are material to the Group. Our conclusion on the Statement is not modified in respect of the above matter. “

(emphasis supplied)

From the above, I note that the financial information of 16 subsidiaries of BGL were not subjected to limited review by the auditor in the unaudited quarterly results for December, 2019 as the same were reviewed by BGL and then submitted to the auditor. The total consolidated revenue of BGL as per December, 2019 unaudited quarterly financial results was INR 859.52 crores, out of which revenue of subsidiaries not reviewed/audited amounted to INR 747.34 crores i.e, nearly 87% of revenue of BGL was not reviewed / audited for December, 2019.

- 109.** As per “532368 | Audited Financial Results For The Quarter And Year Ended March 31, 2020 And Recommendation Of A Final Dividend” published on the website of BSE Ltd. on June 25, 2020, the Independent Auditor’s report reads as:

“The consolidated Financial Results includes 14 subsidiaries financial statements which are not audited by us, whose interim Financial Statements reflect Group’s share of total assets of INR3058.99 crores before the eliminations as at 31st March 2020, Group’s share of total revenue of Rs, 2224.86 crores before the eliminations and Group’s share of total net profit after tax of INR441.52 crores for the quarter ended 31st March 2020 and for the period from 01-04-2019 to 31-03-2020, as considered in the consolidated Financial Results.”

From the above, I note that the financial information of 14 subsidiaries of BGL was not subject to audit. The total consolidated assets of BGL as on March, 2020 was INR 3,270 crores, out of which assets of subsidiaries not reviewed/audited amounted to INR3,058.99 crores i.e, nearly 93.55% of assets of BGL was not reviewed / audited for March, 2020.

- 110.** As established above, at least 80% of each of the consolidated revenue, assets and profits of quarterly financial results of FY 2019-2020 was not subjected to limited review. Thus, I find that BGL has violated regulation 33(3)(h) of LODR Regulations.

E. DID NOT ENSURE THAT THE CONSTITUTION OF ITS AUDIT COMMITTEE WITH EFFECT FROM OCTOBER 01, 2014 IS IN ACCORDANCE WITH REGULATORY REQUIREMENTS

- 111.** The Interim Order cum SCN alleges the following with respect to failure to ensure the constitution of the audit committee with effect from October 01, 2014:

(a) Delay in obtaining shareholders’ approval for appointment of Mr. R Allamsetty

- (b) Compliance with conditions of 'independence' with respect to appointment of Mr. R. Allamsetty as independent director.

112. The Interim Order cum SCN summarizes the tenure of Mr. Raghunath Allamsetty, a director of the Company, as follows:

Table no. 12

#	From	To	Category	Appointed by
1	26-June-2012	26-Dec-2012	Independent	Board of Directors as additional director under section 260 of the Companies Act ,1956.
2	26-Dec-2012	29- Sep-2015	Independent	Shareholders by way of ordinary resolution in annual general meeting ("AGM") dated December 26, 2012.
3	27-Dec-2016	27- Sep-2017	Independent	Board of Directors as additional director under section 165(1) of the Companies Act, 2013.
4	27- Sep-2017	26- Dec-2021	Independent	Shareholders at by way of special resolution in AGM dated September 27, 2017.

113. The notice to annual general meeting of BGL held on September 27, 2017, includes the following as special business:

4. To Appoint Mr. Raghunath Allamsetty as an Independent Director.

To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution:

"RESOLVED THAT, pursuant to the provisions of sections 149, 150, 152, and other applicable provisions of the Companies Act, 2013 and the Rules made there under read with Schedule IV to the Companies Act, 2013 (including any statutory modification(s) or re-enactment thereof for the time being in force) and applicable regulations of SEBI (Listing Obligations & Disclosure Requirements), Regulations, 2015, Mr. Raghunath Allamsetty (DIN: 00060018) who was appointed as an Additional Director (Independent) of the Company with effect from 27th December, 2016 and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of Independent Director, be and is hereby appointed as an Independent Director of the Company, not liable to retire by rotation and Mr. Raghunath Allamsetty shall hold office for a term upto five consecutive years commencing from 27th December, 2016."

(emphasis supplied)

114. The Company also made a disclosure under regulation 30 of LODR Regulations on December 27, 2021, stating "... *this is to inform that Mr.Allam Raghuanth (DIN: 00060018) an Independent Director of the Company has completed the second term of office on December 26, 2021 thereby completing two terms as an Independent Director and*

consequently he also ceased to be a Director of the Company with effect from close of business hours of December 26, 2021.”

(emphasis supplied)

115. From the above notice to AGM and disclosure under regulation 30 of LODR Regulations, it is clear that Mr. Raghunath Allamsetty was appointed by the board meeting on December 27, 2016 for his second term. As seen above, the shareholder approval for his appointment for second term was obtained only in the AGM dated September 27, 2017 (i.e, 9 months later). In this regard, section 149(10) and (11) of Companies Act, 2013, reads as follows:

“(10) Subject to the provisions of section 152, an independent director shall hold office for a term up to five consecutive years on the Board of a company, but shall be eligible for reappointment on passing of a special resolution by the company and disclosure of such appointment in the Board's report.

(11) Notwithstanding anything contained in sub-section (10), no independent director shall hold office for more than two consecutive terms, but such independent director shall be eligible for appointment after the expiration of three years of ceasing to become an independent director:

Provided that an independent director shall not, during the said period of three years, be appointed in or be associated with the company in any other capacity, either directly or indirectly.”

116. In this regard, the Guidance Note on Independent Directors (Revised Edition) issued by the Institute of Company Secretaries of India, dated January, 2022¹ states the following:

“Issue: Can an independent director be appointed as an additional director by the Board of Directors of a company for a second term once his first term is over?

View: In order to reply to the aforesaid, it is imperative to look into the provisions of section 149(1) of the Act which provides as under:

*“an independent director shall hold office for a term up to five consecutive years on the Board of a company, but shall be **eligible for re-appointment on passing of a special resolution by the company.**” (emphasis supplied)*

Further section 149(11) of the Act provides as under:

*“Notwithstanding anything contained in sub-section (10), no independent director shall hold office for more than **two consecutive terms**, but such independent director shall be eligible for appointment after the expiration of three years of ceasing to become an independent director” (emphasis supplied).*

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¹ https://www.icsi.edu/media/webmodules/Guidance_Note_on_IDs.pdf

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- While going through the aforesaid definitions as used in sections 149(10) and 149(11) of the Act, it becomes clear that an independent director is eligible to be re-appointed for a second term only on passing of special resolution by the shareholders and not before. Therefore, obtaining shareholders' consent prior to his re-appointment for a second term, in considered view, is a pre-requisite for the independent director to be eligible to serve on the Board of the company for a second term.
- If the shareholders' approval by special resolution for his re-appointment for second term is not taken as on the last date of the first term, then such independent director cannot be re-appointed by Board as an additional director for second term, as he does not possess the eligibility to get re-appointed for second term and hence, he ceases to be a director at the end of his first term.

(emphasis supplied)

117. Thus, there was a requirement to obtain shareholders' approval by special resolution under section 149(10) and (11) of Companies Act, 2013, before the last date of the first term of Mr. Raghunath Allamsetty ended on September 29, 2015. Therefore, it was alleged that between December 27, 2016 and September 27, 2017 (i.e, from the time Mr. Raghunath Allamsetty was appointed by the board of BGL to the time his appointment was approved by the shareholders in AGM), the appointment of Mr. Raghunath Allamsetty, as an additional director for the second term was not in accordance with the law. Accordingly, Mr. Raghunath Allamsetty could not be considered as an independent director for the period between December 27, 2016 to September 26, 2017 (i.e. during FYs 2016-17 and 2017-18).

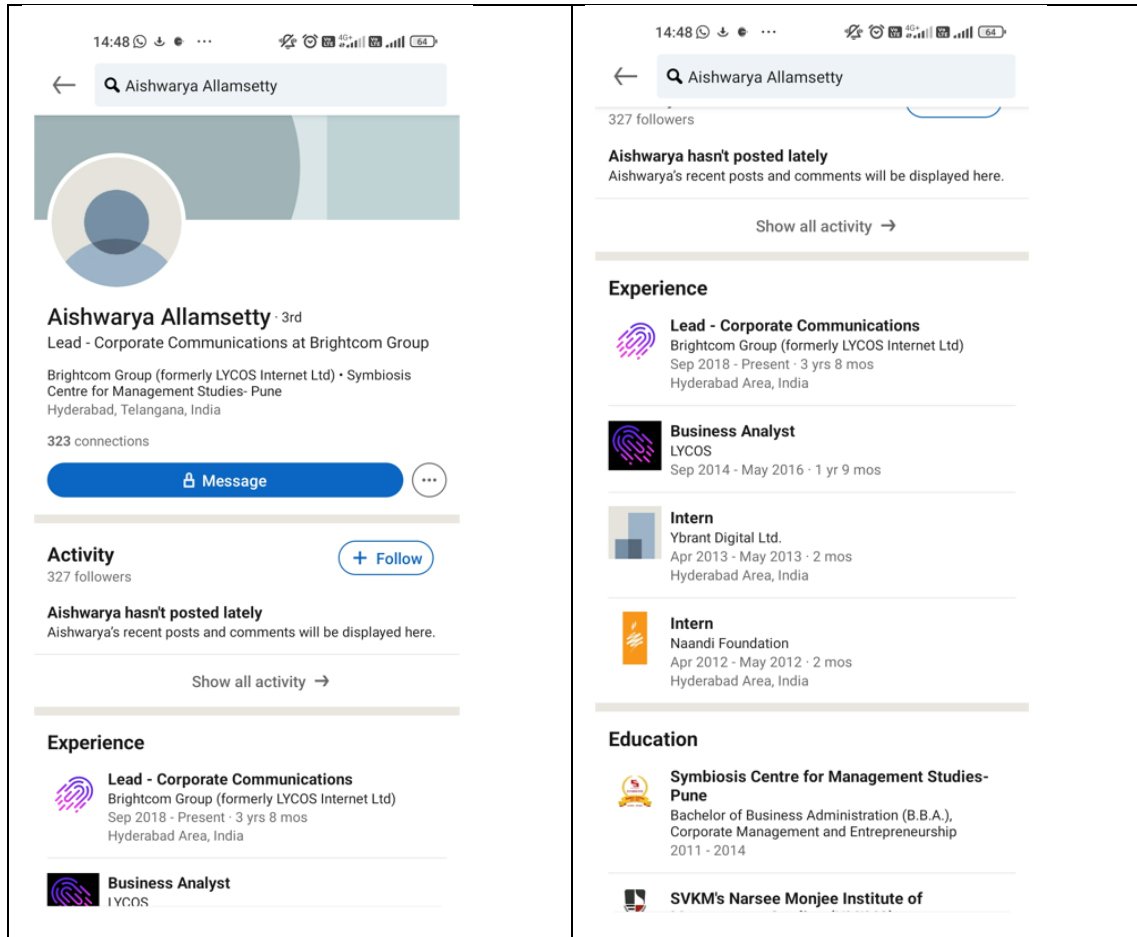
118. The Interim Order cum SCN also alleges that Mr. Raghunath Allamsetty's daughter was associated with BGL thereby rendering him not qualified to be considered as an 'independent' director. On perusal of statement of Mr. Allamsetty Raghunath given to SEBI on April 27, 2022, I note that in response to question no. 47, he has stated that Ms. Aishwarya Allamsetty was his daughter. He has also stated the following regarding his daughters' employment history:

Table no. 13

Company	Designation	Years
Ybrant Digital Ltd.	Intern	April, 2013 to May, 2013
Lycos Internet Limited	Business Analyst	September, 2014 to May, 2016
*From September, 2018, she has shown in her LinkedIn profile that she is working as Lead-Corporate Communication in BGL for resume purposes, however, she was not working during that time.		

119. I note that the above is corroborated from the LinkedIn profile of Ms. Aishwarya Allamsetty, screenshots of which are reproduced below:

Image 9



120. Further, Ms. Aishwarya Allamsetty vide email dated April 27, 2022 shared with SEBI her employment certificate dated May 24, 2019 issued by LIL Projects Private Ltd., as per which she was employed as Lead-Corporate Communications with that company from September 11, 2018 to May 24, 2019. LIL Projects Private Ltd. was a subsidiary of BGL.

121. In this regard, I note that the Listing Agreement applicable with effect from October 01, 2014, in clause 49IIB(1)(e) states the following:

“B. Independent Directors

1. For the purpose of the clause A, the expression ‘independent director’ shall mean a non-executive director, other than a nominee director of the company:

.

e. who, neither himself **nor any of his relatives** —

(i) holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

Further, regulation 16(1)(b)(vi) of LODR Regulations which came into effect from December 01, 2015 states the following:

Definitions. 16.

(1) For the purpose of this chapter , unless the context otherwise requires

(b) "independent director" means a non-executive director, other than a nominee director of the listed entity:

(vi) who, neither himself, **nor whose relative(s)** —

(A) holds or has held the position of a key managerial personnel or is or **has been an employee of the listed entity or its holding**, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed:

122. The definition of “relative” under the Listing Agreement and LODR Regulations is as under:

Listing Agreement

“Relative” shall mean “relative” as defined in section 2(77) of the Companies Act, 2013 and rules prescribed there under

LODR Regulations

2(1)(zd) “relative” means relative as defined under sub-section (77) of section 2 of the Companies Act, 2013 and rules prescribed there under:

123. The definition of “relative” under the Companies Act, 2013 is as follows:

2(77) “relative”, with reference to any person, means any one who is related to another, if—

(i) they are members of a Hindu Undivided Family;

(ii) they are husband and wife; or

(iii) one person is related to the other in such manner as may be prescribed

The phrase “as may be prescribed” means:

A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:-

(1) Father:

Provided that the term “Father” includes step-father.

(2) Mother:

Provided that the term "Mother" includes the step-mother.

(3) Son:

Provided that the term "Son" includes the step-son.

(4) Son's wife.

(5) Daughter.

(6) Daughter's husband.

(7) Brother:

Provided that the term "Brother" includes the step-brother;

(8) Sister:

Provided that the term "Sister" includes the step-sister."

124. Since Ms. Aishwarya Allamsetty, daughter (relative) of Mr. Raghunath Allamsetty (an independent director) was employed as a business analyst in Lycos Internet Limited (now BGL) from September, 2014 to May, 2016, Mr. Raghunath Allamsetty could not have been considered an 'independent' director in terms of Listing Agreement and LODR Regulations from October 01, 2014.

125. In view of the above irregularities in appointment of Mr. Raghunath Allamsetty (*i.e. - (i) by not obtaining prior approval of shareholders and (ii) his relative's (daughter's) employment with the Company and its subsidiary*), he did not qualify to be an independent director of the BGL from October 01, 2014 till September 26, 2017. Consequently, SCN alleges that two separate regulations have been violated -

(i) Regulation 17(1) of LODR Regulations which requires a listed company to have not less than 50% directors as independent directors; and.

(ii) Regulation 18(1)(b) of LODR Regulations which requires a listed company to have atleast 2/3rd members in audit committee to be independent directors.

Extracts of these legal provisions are reproduced below for reference:

"Board of Directors.

17. (1) The composition of board of directors of the listed entity shall be as follows:

(b) where the chairperson of the board of directors is a non-executive director, at least one-third of the board of directors shall comprise of independent directors and where the listed entity does not have a regular non-executive chairperson, at least half of the board of directors shall comprise of independent directors:

Provided that where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors.

Explanation. - For the purpose of this clause, the expression "related to any promoter" shall have the following meaning:

(i) if the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;

(ii) if the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it

Audit Committee. 18. (1) Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

(b) two-thirds of the members of audit committee shall be independent directors and in case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors."

126. If Mr. Raghunath Allamsetty is considered as a Non-Executive and Non Independent Director of BGL, the board composition and audit committee composition of BGL would be as follows:

Table no. 14

	Regulation 17(1) of LODR Regulations (requirement: not less than 50% to be independent directors)				Regulation 18(1)(b) of LODR Regulations (requirement: atleast 2/3 rd of audit committee members to be independent directors)			
	No. of executive directors	No. of independent directors	No. of non-executive directors	Compliance with regulation 17(1)	No. of executive directors in audit committee	No. of independent directors in audit committee	No. of non-executive directors	Compliance with regulation 18(1)(b)
FY 2014-15	1	5	2	Yes	-	2	1	Yes
FY 2015-16	2	3	2	No	1	3	1	No
FY 2016-17	3	3	2	No	1	2	1	No
FY 2017-18	2	3	1	Yes	1	2	1	No
FY 2018-19	2	2	1	No	1	1	1	No

	Regulation 17(1) of LODR Regulations (requirement: not less than 50% to be independent directors)				Regulation 18(1)(b) of LODR Regulations (requirement: atleast 2/3 rd of audit committee members to be independent directors)			
	No. of executive directors	No. of independent directors	No. of non-executive directors	Compliance with regulation 17(1)	No. of executive directors in audit committee	No. of independent directors in audit committee	No. of non-executive directors	Compliance with regulation 18(1)(b)
FY 2019-20	2	2	1	No	1	1	1	No

127. As can be seen from the Table above, BGL's Board composition and audit committee composition, during the period for which Allamsetty Raghunath did not qualify to be an independent director, were not in accordance with requirement specified in the said regulations. In view of the above, I find that BGL has violated 17(1) of LODR Regulations during FY 2014-15 and 2017-18 and Regulation 18(1)(b) of LODR Regulations during FY 2014-15.

F. DID NOT APPOINT ATLEAST ONE OF ITS INDEPENDENT DIRECTORS ON THE BOARD OF ITS UNLISTED MATERIAL SUBSIDIARIES

128. Regulation 24(1) of LODR Regulations effective from April 01, 2019, reads as follows:

Corporate governance requirements with respect to subsidiary of listed entity.

24. [^][(1) At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.

Explanation - For the purposes of this provision, notwithstanding anything to the contrary contained in regulation 16, the term "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds twenty percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.]

[^] *Substituted by the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, w.e.f. 1.4.2019. Prior to the substitution, sub-regulation (1) read as follows: "(1) At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, incorporated in India."*

129. As can be seen from the amended provision and the existing legal provisions, reproduced above, prior to April 01, 2019, at least one independent director of a listed company had to be on the board of its unlisted material subsidiary, provided it was incorporated in India. After April 01, 2019, this mandate applied irrespective of whether the subsidiary was

incorporated in India or not. The Interim Order cum SCN alleges that BGL did not comply with the aforesaid mandate. In this regard, I note that *vide* email dated August 02, 2022, BGL had furnished list of material subsidiaries for each of the FYs during the Investigation Period which is given below:

Table no. 15

Material Subsidiaries						
Sl. No.	FY15	FY16	FY17	FY18	FY19	FY20
1	Online Media Solutions	Online Media Solutions	Online Media Solutions	Online Media Solutions	Online Media Solutions	Online Media Solutions
2	Frontier Data Management	Frontier Data Management	Frontier Data Management	Frontier Data Management	Frontier Data Management	Frontier Data Management
3	International Expressions Inc.	International Expressions Inc.	International Expressions Inc.	International Expressions Inc.	International Expressions Inc.	International Expressions Inc.

130. I note from page 3 of annual report of BGL for FY 2019-2020, that Online Media Solutions Limited is based out of Israel and Frontier Data Management Inc. (MediosOne) and International Expressions Inc. (VoloMP) are based out of the US. Thus, during the entire Investigation Period, BGL had only overseas subsidiaries as material subsidiaries. The Company had provided the following list of directors of its material overseas subsidiaries:

Table no. 16

Subsidiary	Directors & Key Management
Frontier Data Management Inc., USA	Brad Cohen, Vijay Kancharla
International Expressions Inc., USA	Ori Elraviv, Vijay Kancharla
Online Media Solutions Ltd., Israel	Jacob Nizri, Etai Eitany

Mr. Vijay Kancharla is a whole time director of BGL. Thus, I note that the material overseas subsidiaries of BGL did not have an independent director of BGL on their respective boards.

131. As noted above, with effect from April 01, 2019, BGL was required to have one of its independent directors on the board of its three material subsidiaries, namely, Online Media Solutions Limited, Frontier Data Management Inc. (MediosOne) and International Expressions Inc. (VoloMP) even though they were incorporated overseas. However, as seen above, BGL had not appointed one of its independent directors on the board of the above three companies in the FY 2019-2020. In view of the above, I find that BGL has violated regulation 24(1) of LODR Regulations.

G. DID NOT DISCLOSE STANDALONE FINANCIAL STATEMENTS OF SUBSIDIARIES ON ITS WEBSITE

132. Regulation 46(2)(s) of LODR Regulations reads as follows:

CHAPTER IV OBLIGATIONS OF LISTED ENTITY WHICH HAS LISTED ITS SPECIFIED SECURITIES
Website

*46.(2) The listed entity shall disseminate the following information *#[under a separate section on its website]:*

*[(s) separate audited financial statements of each subsidiary of the listed entity in respect of a relevant financial year, uploaded at least 21 days prior to the date of the annual general meeting which has been called to inter alia consider accounts of that financial year]***

**# Substituted for the words “on its website” by the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, w.e.f. 1.4.2019.*

*** Inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, w.e.f. the date specified².*

133. The Interim Order cum SCN alleges that BGL did not publish standalone financial statements of its subsidiaries on its website. Further, it alleges that despite various summons sent to BGL, it did not provide the link where the separate audited accounts in respect of each of its subsidiaries were uploaded.

134. In this regard, I note that in the statement recording of Mr. Suresh Kumar Reddy, Chairman and Managing Director of BGL, on March 17, 2022, he was asked : “*Why the company has not disseminated the separate financial statements of the subsidiaries of the company for any of the financial years as required under regulation 46 of SEBI LODR Regulations 2015?*”, to which, he has replied “*There was a legal matter in the Lycos acquisition case, where in the detailed breakup of the financials was causing difficulty in negotiation with the other party. That was the reasons we did not put forth detailed subsidiary financials*”. He was further asked, “*Did the company seek exemption from SEBI from the applicability of regulation 46 of SEBI LODR 2015?*”, he answered “*We did not seek exemption.*” From the

² As per SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, the said regulations shall come into force with effect from April 01, 2019.

above, I note that Mr. Suresh Kumar Reddy (Noticee 2), Chairman and Managing Director of BGL has admitted that BGL has violated the above provision.

- 135.** In its replies, Noticee company have contended that the standalone financial statements of its subsidiaries are available and they have been regularly published in the annual report, which is available on the website of the Company. I note that the requirement is to publish the standalone financial statements under a separate section post 01.04.2019 on its website and not in its annual report.
- 136.** Noticee 2 has submitted that not seeking exemption from SEBI from publishing the subsidiary financial results on the applicability of regulation 46 of the LODR Regulations was purely unintentional and without *malafide* intent. In this regard, these being civil quasi-judicial proceedings establishing the said violation, “guilty intent” or “*mens rea*” is not required to be established. Failure to comply with statutory requirement mentioned herein per se attracts the violation.
- 137.** In view of the above, I find that BGL has violated regulation 4(1)(d),(g),(h),(i),(j) and 46(2)(s) of LODR Regulations.

H. DID NOT MAINTAIN STRUCTURED DIGITAL DATABASE

- 138.** Regulation 3(5) of the PIT Regulations which was inserted with effect from April 01, 2019 (as applicable before July 17, 2020) reads as follows:

“The board of directors shall ensure that a structured digital database is maintained containing the names of such persons or entities as the case may be with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available. Such databases shall be maintained with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database.”

- 139.** The Interim Order cum SCN alleges that BGL did not maintain a structured digital database (“**SDD**”) as required under the PIT Regulations.

140. In this regard, I note that during the course of investigation on May 31, 2022, M. Suresh Kumar Reddy, Chairman and Managing Director of the Company, was asked to furnish the copy of the SDD maintained by the Company in accordance with regulation 3(5) of the PIT Regulations. In response, Mr. M. Suresh Kumar Reddy, *vide* email dated June 07, 2022, merely furnished an excel sheet containing a list of insiders. On further inquiry by SEBI, Mr. Suresh Kumar Reddy stated the following:

“We would like to submit that in order to create and maintain the Structured Digital Database, a separate software is needed and the Registrar and Transfer Agent of the Company who maintains the details of shareholding including the BENPOS files is required to input data into the software. Due to certain unavoidable circumstances, the software for this purpose could not be procured and the server could not be installed at our Registered Office. We were also not able to identify third party providers to create and maintain the Structured Digital Database at Hyderabad.

We have now arranged to procure the necessary software and to input data and to set up and maintain servers at our registered office.

It may be noted that Brightcom Group is a Multinational Company with business and operations in 25 countries and a market leader in ad tech space with clients who include Fortune 50 companies such as Sony, Viacom, Samsung, British Airways; since various jurisdictions have different compliance requirements and need separate software, the delay in setting up the Structured Digital Database is only on account of the complexity in our overall compliance requirements. “

141. The excel sheet furnished by Mr. M. Suresh Kumar Reddy cannot be considered as SDD as it does not contain the details of Unpublished Price Sensitive Information (UPSI) and the persons with whom UPSI was shared as required under regulation 3(5) of the PIT Regulations. Mr. M. Suresh Kumar Reddy’s responses during the course of investigation admit to the absence of SDD as mandated by regulation 3(5) of the PIT Regulations. Further, the Noticees in their reply to the SCN have submitted that BGL was in the process of installing the SDD software but due to unavoidable circumstances, BGL had delayed in installing the said software. SDD was eventually installed in the month of December, 2022. In support of this, they have submitted a tax invoice dated December 02, 2022 where the vendor is “Legality Simplified Limited Liability Partnership”. Since Noticees have not submitted any evidence with respect to its functioning (for example: whether the software maintains audit trails), no observations can be made whether BGL is now in compliance with regulation 3(5) of PIT Regulations. Nevertheless, the non-compliance prior to

December 2022 (which is the impugned period) remains uncontested. Therefore, I find that M Suresh Kumar Reddy and Vijay Kancharia, who were on the board of directors of BGL to have violated regulation 3(5) of PIT Regulations from April 01, 2019 till March 31, 2020 (till the end of investigation period).

I. NON-DISCLOSURE OF IMPACT OF GDPR ON BGL

142. Regulation 30(1), (3) and (4) read with Schedule III, regulation 34(2) read with Schedule V of LODR Regulations reads as follows:

Regulation 30

(1) Every listed entity shall make disclosures of any events or information which, in the opinion of the board of directors of the listed company, is material.

(3) The listed entity shall make disclosure of events specified in Para B of Part A of Schedule III, based on application of the guidelines for materiality, as specified in sub-regulation (4).

(4) (i) The listed entity shall consider the following criteria for determination of materiality of events/ information:

(a) the omission of an event or information, which is likely to result in discontinuity or alteration of event or information already available publicly; or

(b) the omission of an event or information is likely to result in significant market reaction if the said omission came to light at a later date;

(ii) The listed entity shall frame a policy for determination of materiality, based on criteria specified in this sub-regulation, duly approved by its board of directors, which shall be disclosed on its website.

(6) The listed entity shall first disclose to stock exchange(s) of all events, as specified in Part A of Schedule III, or information as soon as reasonably possible and not later than twenty four hours from the occurrence of event or information:

Provided that in case the disclosure is made after twenty four hours of occurrence of the event or information, the listed entity shall, along with such disclosures provide explanation for delay:

Provided further that disclosure with respect to events specified in sub-para 4 of Para A of Part A of Schedule III shall be made within [the timelines specified therein]

SCHEDULE III

PART A: DISCLOSURES OF EVENTS OR INFORMATION: SPECIFIED SECURITIES

The following shall be events/information, upon occurrence of which listed entity shall make disclosure to stock exchange(s):

Para B. Events which shall be disclosed upon application of the guidelines for materiality referred sub-regulation (4) of regulation (30):

7. Effect(s) arising out of change in the regulatory framework applicable to the listed entity

Regulation 34

(2) The annual report shall contain the following:

(e) management discussion and analysis report - either as a part of directors report or addition thereto;

Schedule V: Annual Report

The annual report shall contain the following additional disclosures:

B. Management Discussion and Analysis:

1. This section shall include discussion on the following matters within the limits set by the listed entity's competitive position:

(a) Industry structure and developments.

(b) Opportunities and Threats.

(c) Segment-wise or product-wise performance.

(d) Outlook

(e) Risks and concerns.

(f)

(g)

....”

Further, section 134(3)(l) of the Companies Act 2013, states that the report by board of directors which is part of annual report of the company shall *inter alia* include “*material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the financial statements relate and the date of the report*”.

143. The Company, *vide* its letter dated September 27, 2021 to SEBI, provided the following rationale for recording the impairment of assets worth INR 868.30 crores in FY 2019-20:

“The company has done impairment for the financial year 2019-20 due to the regulatory changes, i.e., introduction of GDPR and also due to the slowdown of business operations due to the COVID-19 pandemic and our future plans for the coming fiscal year in this

environment. From time to time the company reviews the recoverability of advances. As per the IND AS, if there is any uncertainty about the timing of recoverability of assets, the same is to be impaired. As a prudent accounting practice, the management had taken decision to impair the advances”.

The Company further stated that: *“The primary reason for impairment, especially on the OCA (Other current Assets) and current assets were due to the introduction of new cyber law in 2018 across the EU and various parts of the world called the GDPR”.*

As per BGL’s board minutes dated June 25, 2020, GDPR was the primary reason for impairment of ‘Other Current Assets’ and ‘Current Assets’ in FY 2019-20.

144. As noted earlier, GDPR was enacted by European Parliament in April, 2016 and became applicable with effect from May 25, 2018. By its own subsequent disclosure, BGL admitted that GDPR was a regulatory change that had a material adverse impact on its operations. Thus, the conditions necessitating disclosure as laid out in regulation 30(4) read with schedule III of LODR Regulations and regulation 34 read with schedule V of LODR Regulations were satisfied, and a timely disclosure was required but not made. Further, as per regulation 34(2) read with Schedule V of the LODR Regulations, BGL was required to disclose the introduction of GDPR as Threats, Outlooks, Risks or concerns in the Management Discussion and Analysis Report (“**MDAR**”).

145. In relation to the above, SEBI had issued summons dated February 23, 2022 and July 21, 2022 to the Company asking it to furnish copies of all the disclosures made by BGL in respect of introduction of GDPR. In response to the same, Mr. Suresh Kumar Reddy vide email dated August 02, 2022 submitted a copy of press release titled *“Brightcom Group - Ready for GDPR”* dated May 25, 2018 which was submitted to the stock exchanges on May 25, 2018. The relevant extracts that talk about GDPR is reproduced below:

“The Brightcom Group, a global technology company that specializes in Internet-related services and products, which include Ad-tech, New Media and lot based businesses across the globe, primarily in the digital ecosystem, today announced its measures and readiness to the GDPR.

The GDPR, which takes effect this Friday, May 25, 2018, is data privacy and protection regulation defined and enforced by the European Union. The GDPR imposes new rules regarding the processing of Personal Data of data subjects' located in the EU. Key points about GDPR compliance are:

Key points about GDPR compliance which Brightcom has already worked upon are respecting data privacy, gathering consent & keeping proof of it, securing the digital infrastructure and training and preparing the teams to handle the customer's data, as mandated by GDPR Regulations.

Brightcom is well aligned with the underlying philosophy of GDPR and we see this as a great opportunity for firms, which are socially responsible towards integrity of private data of consumers, to actually surge ahead in deploying solutions that matter. We have established robust access controls and profile management to ensure that processes are in place", said Suresh Reddy, Chairman & CEO of the Brightcom Group."

From the above press release, I note that while BGL claimed to have already established controls to ensure compliance with GDPR, no disclosure was made regarding impact of GDPR on the business of the Company in the FY 2018-19.

146. BGL in its replies has claimed that it had communicated the impact of GDPR through the press release dated May 25, 2018 and the article published in The Hindu dated June 19, 2018. The press release dated May 25, 2018 has already been discussed above, and as noted it does not make any specific disclosure in respect of impact of GDPR on the business of the Company in the FY 2018-19. The article published in The Hindu dated June 19, 2018 reads as follows:

"The General Data Protection Regulation (GDPR), enforced by the European Union last month, has cleared the ambiguity on privacy, and would benefit consumers and firms worldwide, said Brightcom Chairman and CEO Suresh Reddy. Besides being a threat to Google, Facebook and Whatsapp, the data privacy law had prompted staff training, change of codes, alteration of information flow and purchase of newer equipments across IT firms, he said, speaking to The Hindu over the phone. "The ambiguity over the usage of information and privacy has gone. We are compliant with the new law and are helping non-compliant clients to suit the new requirements," Mr. Reddy said. Saying that stricter privacy laws were expected to hit the market, he added, "The US, Australia and Singapore are watching the GDPR implementation. It is expected to be a template for them to develop their own versions."

147. I note that the above article also does not delve into the impact of GDPR on the functioning of BGL. As held in paragraph 66 above, BGL had in fact failed to carry out annual

impairment-testing of assets on account of introduction of GDPR which would have necessitated such a disclosure.

148. I note that the director's report for the FYs ended on March 31, 2016 and March 31, 2018 also does not contain any statement about impact of GDPR on financials of BGL, rather it states: *"There are no Material Changes and Commitments affecting the financial position of the Company which occurred between the end of the financial year to which the financial statements relate and the date of this Report."* Similarly, from the MDAR for the FYs ending March 31, 2017 to March 31, 2020, I note that BGL has merely made the following disclosure: *"Business can be affected by privacy legislations and other regulations. The Company discloses all its collection statements and dissemination practices in a published privacy statement in its website."*

149. From the aforesaid paragraphs, I note that BGL eventually disclosed impairment of assets due to GDPR in FY 2019-2020 of INR 868.30 crores under OCI in Profit & Loss Statement without explaining the reasons for delay as required in regulation 30(6) of the LODR Regulations. Mr. Vijay Kancharla (Noticee 3) in his reply has submitted that till May, 2018, BGL was mapping its features/ components to requirements of GDPR and testing whether those features/ components were to be offered to customers or not. Therefore, he has argued that the statement *"There are no Material Changes and Commitments affecting the financial position of the Company which occurred between the end of the financial year to which the financial statements relate and the date of this Report"* in the director's report for the FYs ended on March 31, 2016 and March 31, 2018 dated November 21, 2016 and October 16, 2018 is correct. Since GDPR was enacted in April, 2016, I find that BGL was obligated to disclose impact of GDPR on its business in FYs 2016-17 to 2018-19. Therefore, the submission that BGL was evaluating effect of GDPR until FY 2019-2020 is not tenable.

150. In view of all of the above, I find that regulation 30 r/w clause 7 of para B of Part A of Schedule III of LODR Regulations has been violated in FYs 2016-2017, 2017-2018, and 2018-2019. Further, BGL has also violated regulation 34(2) of the LODR Regulation by not disclosing introduction of GDPR as Threats, Outlook, Risks or Concerns in the MDAR in the Annual Reports for the FYs ending March 31, 2017 to March 31, 2020.

(3): If the answer to Issue I. to II. above is in affirmative, whether Noticees 2 to 5 are responsible for the violations of BGL?

151. The allegations made against Noticees 2 to 5 can be categorised into the following two types:

- (a)** Direct liability for the violations committed by them; and,
- (b)** Vicarious liability for the violations committed by the company.

152. The designation held by the Noticees in BGL and their respective tenures as per the Interim Order cum SCN are as under:

Table no. 17

Noticee no.	Name of the Director	Designation	From	To
2	Mr. M. Suresh Kumar Reddy	Chairman and Managing Director (CMD) & Promoter	26/06/2012	27/08/2023#
3	Mr. Vijay Kancharla	Whole-Time Director (Promoter)	26/06/2012	02/01/2024
4	Mr. Yerradoddi Ramesh Reddy*	Independent Director	26/06/2012	09/05/2016
		Executive Director	09/05/2016	20/04/2017
		Group CFO	09/05/2016	08/05/2021
5	Mr. Y. Srinivasa Rao	Chief Financial Officer	01/01/2015	25/03/2022

* Mr. Y. Ramesh Reddy, Executive Director (Finance) has stepped down from the board of director of the Company with effect from close of business hours of 20th April 2017. Further, he continued to be Group CFO of the Company till the completion of five years from 09.05.2016.

In compliance with interim order (another case in respect of same Company) dated August 22, 2023, Mr. Suresh Kumar Reddy resigned as Chairman and Managing Director on August 27, 2023.

153. The details of meetings of board of directors of BGL that took place during FY 2014-15 to FY 2019-20 and attendees thereof are as follows:

Table no. 18

Name of the Director	2014-15		2015-16		2016-17		2017-18		2018-19		2019-20	
	E	A	E	A	E	A	E	A	E	A	E	A
Mr. M. Suresh Kumar Reddy	7	7	5	5	9	9	6	6	8	8	10	10
Mr. Vijay Kancharla	7	7	5	4	9	2	6	1	8	1	10	1
Mr. M. Vijaya Bhasker Reddy	7	6	2	3	NA	NA	NA	NA	NA	NA	NA	NA
Mr. A. Raghunath	7	6	3	3	1	1	6	6	8	8	10	10
Mr. Y. Ramesh Reddy	7	6	5	5	8	8	NA	NA	NA	NA	NA	NA

Name of the Director	2014-15		2015-16		2016-17		2017-18		2018-19		2019-20	
	E	A	E	A	E	A	E	A	E	A	E	A
Mrs. S.V.Rajyalaxmi Reddy	1	0	4	5	2	2	NA	NA	NA	NA	NA	NA
Mr. Subrato Saha	NA	NA	1	2	1	1	3	0	NA	NA	NA	NA
Mr. Michael Loren Mauldin	NA	NA	0	2	4	0	NA	NA	NA	NA	NA	NA
Dr. K Jayalakshmi Kumari	NA	NA	NA	NA	7	7	6	6	8	8	10	10
Dr. Surabhi Sinha	NA	NA	NA	NA	NA	NA	1	1	8	8	10	10
E – Eligible, A – Attended												

154. The details of audit committee meetings that took place during FY 2014-15 to FY 2019-20 and attendees thereof are as follows:

Table no. 19

Financial Year		2014-15		2015-16		2016-17		2017-18		2018-19		2019-20	
Total No of Meetings		4		4		5		4		4		4	
Dates of Meetings		28.05.2014		25.05.2015		09.05.2016		30.05.2017		29.05.2018		27.05.2019	
		26.06.2014		10.08.2015		27.05.2016		14.08.2017		11.08.2018		14.08.2019	
		28.10.2014		13.11.2015		11.09.2016		11.11.2017		14.11.2018		14.11.2019	
		02.02.2015		05.02.2016		13.12.2016 13.12.2016		13.02.2018		12.02.2019		14.02.2019	
SN	Name of Audit Committee Member	E^	A^^	E^	A^^	E^	A^^	E^	A^^	E^	A^^	E^	A^^
1	Mr.Y.Ramesh Reddy\$\$	4	4	4	4	Not Applicable		Not Applicable		Not Applicable		Not Applicable	
2	Mr. M.Vijaya Bhasker Reddy**	4	3	2	1	Not Applicable		Not Applicable		Not Applicable		Not Applicable	
3	#Mr. A.Raghunath	4	3	2	2	1	1	4	4	4	4	4	4
4	\$Mr. Subrato Saha*	Not Applicable		2	1	5	1	2	0	Not Applicable		Not Applicable	
5	Mr. Vijay Kancharla*	Not Applicable		2	2	5	2	4	1	4	1	4	0
6	Dr. K. Jayalakshmi Kumari***	Not Applicable		Not Applicable		5	5	4	4	4	4	4	4

E^ = Eligible to Attend
A^^ = Attended
* Appointed as members w.e.f. September 29, 2015.
**ceased to be the members w.e.f. September 29, 2015
***Appointed as member w.e.f. May 17, 2016
#Appointed as member w.e.f. December 27, 2016 & as Chairman w.e.f. February 14, 2017
\$ Mr. Subrato Saha ceased to be a member w.e.f. October 25, 2017.
\$\$Y Ramesh Reddy was the chairman of the Audit Committee till May 09, 2016.

155. The board of directors of BGL who are the signatories to the financial statements and signatories to CEO / CFO certification as required under clause 49 of the Listing Agreement (for FY 2014-15) and regulation 17(8) of LODR Regulations (For FY 2016-17 to FY 2019-20) are given below:

Table no. 20

Signatory Details		2014-15		2015-16		2016-17		2017-18		2018-19		2019-20	
Name	Designation	FS	CCC	FS	CCC	FS	CCC	FS	CCC	FS	CCC	FS	CCC
Suresh Kumar Reddy M.	Chairman & Managing Director	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Y.Srinivasa Rao	Chief Financial Officer	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Vijay Kancharla	Executive Director	Yes	No	No	No	Yes	No	Yes	No	Yes	No	No	No
Y Ramesh Reddy	Executive Director (Fin) & Group CFO	No	No	Yes	No	No	No	No	No	No	No	No	No
Allam Raghunath	Independent Director	No	No	No	No	No	No	No	No	No	No	Yes	No
FS - Financial Statements, CCC - CEO/CFO Certification													

(Source: Annual reports of the company)

156. Role of Mr. M. Suresh Kumar Reddy (Noticee 2), Chairman and Managing Director & Promoter

(a) From the tables above, it can be seen that Mr. M. Suresh Kumar Reddy was Chairman, Managing Director and Promoter of BGL from June 26, 2012 to August 27, 2023. He had attended all the board meetings during the Investigation Period. Further, all the board meetings of 7 out of 10 subsidiaries of the Company, which recorded impairment in FY 2019-20, were attended by Mr. M. Suresh Kumar Reddy (*minutes of the remaining three subsidiaries were not provided by BGL*). He had also signed the financial statements and CEO / CFO certificate for all the years during the Investigation Period. As noted earlier, in his replies Suresh Kumar Reddy has claimed that he was responsible for promoting the success of the group and its worldwide functions thereby suggesting that he did not look into the day-to-day affairs of BGL. I note however that being the promoter & MD of the company, having attended all the board meetings and having signed CEO/CFO certifications, he cannot distance himself from the functions of the company or feign ignorance of the violations committed by BGL as discussed in this Order. As discussed above, BGL is in violation of several provisions of LODR Regulations and PFUTP Regulations. Therefore, I find that Mr. M Suresh Kumar Reddy failed to discharge his duties as a

director during FYs 2014-15 to 2019-20. Accordingly, he is directly liable for the violation of clauses 49(I)(D)(1)(b) and (2)(b)(h) of the erstwhile Listing Agreement (for the FY 2014-15) and regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2)(7)(8), 4(2)(f)(iii)(1),(2),(3),(6),(7),(12) of LODR Regulations (For the FYs 2015-16 to FY 2019-20). and vicariously liable for the violation of clauses 49 (I)(C)(1)(a) and 50 of the erstwhile Listing Agreement (for the FY 2014-15). Further, by being a signatory to the CEO / CFO certification, he has violated Clause 49(IX) of the erstwhile Listing Agreement (For the FY 2014-15) & regulation 17(8) of LODR Regulations (for the FYs 2015-16 to FY 2019-20). The said provisions are reproduced below:

Listing Agreement

49. CORPORATE GOVERNANCE

I. The company agrees to comply with the provisions of Clause 49 which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below. In case of any ambiguity, the said provisions shall be interpreted and applied in alignment with the principles.

D. Responsibilities of the Board

1. Disclosure of Information

b. The Board and top management should conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture for good decision-making.

2.Key functions of the Board

The board should fulfill certain key functions, including:

b. Monitoring the effectiveness of the company's governance practices and making changes as needed.

h. Overseeing the process of disclosure and communications.

IX. CEO/CFO certification

The CEO or the Managing Director or manager or in their absence, a Whole Time Director appointed in terms of Companies Act, 2013 and the CFO shall certify to the Board that:

A. They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief :

1. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

2. these statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

B. There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or violative of the company's code of conduct.

C. They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.

D. They have indicated to the auditors and the Audit committee:

1. significant changes in internal control over financial reporting during the year;

2. significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

3. instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system over financial reporting.

LODR Regulations

Regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2)(7)(8), 4(2)(f)(iii)(1),(2),(3),(6),(7),(12)

(2) The listed entity which has listed its specified securities shall comply with the corporate governance provisions as specified in chapter IV which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below

(f) Responsibilities of the board of directors: The board of directors of the listed entity shall have the following responsibilities:

(i) Disclosure of information:

(2) The board of directors and senior management shall conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture of good decision-making.

(ii) Key functions of the board of directors-

(2) Monitoring the effectiveness of the listed entity's governance practices and making changes as needed.

(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

(8) Overseeing the process of disclosure and communications.

(iii) Other responsibilities:

(1) The board of directors shall provide strategic guidance to the listed entity, ensure effective monitoring of the management and shall be accountable to the listed entity and the shareholders.

(2) The board of directors shall set a corporate culture and the values by which executives throughout a group shall behave.

(3) Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.

(6) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.

(7) The board of directors shall exercise objective independent judgement on corporate affairs.

(12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.

Regulation 17(8)

Board of Directors.

17. (8) The chief executive officer and the chief financial officer shall provide the compliance certificate to the board of directors as specified in Part B of Schedule II.

- (b)** Noticee 2 has relied upon the cases of Sayanti Sen (supra), Amazan Capital Limited (supra) and Action Financial Services Ltd. (supra) to submit that liability depends on the role one plays in the affairs of the company and not on any designation or status. In this regard, I note that all these decisions were in the specific context of “officer in default” under section 73 of the Companies Act, 1956. Therefore, they are not relevant to the present case. I further note that in Sayanti Sen (supra), the contention of the appellant before Hon’ble SAT was that she had nothing to do with the issuance of Non-Convertible Debentures (NCDs) and had not attended any meeting of the board of directors. Further, Hon’ble SAT had observed that WTM had given a categorical finding in his order that one Shri Shib Narayan Das was responsible for the affairs of the company. In the case of Action Financial Services Ltd. (supra),

the Adjudicating Officer gave benefit of doubt to certain noticees as nothing was brought on record regarding their individual roles and responsibilities in the company in terms of board meeting minutes, AGM minutes etc. The said case is clearly distinguishable from the facts of the present case. Further, the Action Financial Services Ltd. (supra) case is distinguishable from the present case on another ground. In the Action Financial Services Ltd., the benefit of doubt was given to noticees who were additional directors /independent directors of the company. Noticee 2 has relied upon the decision of Reliance Industries Ltd. (supra) to submit that merely holding the designation of Managing Director does not suffice for imputing vicarious liability to such person. The said finding of Hon'ble SAT has to be read in terms of the overall context of the case. The said finding was made in light of the fact that two senior executives of the company were vested with relevant powers and functions in relation to the subject transaction. Further, Hon'ble SAT had noted “....Thus, we are of the opinion, that in view of the stark evidence in the form of minutes of the two Board meetings of RIL which conclusively proves that the impugned trades were carried out by two senior officials without the knowledge of the appellant no liability can be fastened upon noticee no. 2 in the facts of the given case....”. The direct involvement of Noticee 2 in the facts of this case render the Reliance Industries Ltd. (supra) case irrelevant. Therefore, the ratio of Reliance Industries Ltd. (supra) does not apply to the present case.

- (c) In the present case, Noticee 2 being the Promoter, Chairman and Managing Director of BGL during the Investigation Period and having attended the relevant meetings where decisions were taken and having signed the CEO/CFO certification & financial statements for FYs 2014-15 to 2019-20, cannot escape from the liability. Thus, the precedents cited by Noticee 2 are distinguishable and do not aid Noticee 2's defence.

157. Role of Mr. Vijay Kancharla (Noticee 3), Whole Time Director & Promoter

- (a) I note that Mr. Vijay Kancharla was a Whole Time Director and is a Promoter of BGL since 2012 and has attended 16 out of 45 board meetings during the Investigation Period. He has also attended 6 audit committee meetings out of the 19 audit

committee meetings held during the FYs 2015-2016 to 2019-2020. He had also signed financial statements of BGL for the FYs 2014-2015, 2016-2017, 2017-2018, 2018-2019. Also, he was one of the directors on the board of all the subsidiaries that recorded impairment during the investigation period and attended all the board meetings of 7 out of 10 subsidiaries during the Investigation Period that recorded impairment in FY 2019-20 (*minutes of the remaining three subsidiaries were not provided by BGL*) during the FYs 2014-15 to 2019-20.

- (b)** Mr. Vijay Kancharla (Noticee 3) has stated that his basic role in the Company involved leading innovations and he was responsible for Company's worldwide technology enhancements. As has been done by Noticee 2, Vijay Kancharia has also relied upon the cases of Sayanti Sen (*supra*), Amazan Capital Limited (*supra*) and Action Financial Services Ltd. (*supra*) to submit that liability depends on the role one plays in the affairs of the company and not on any designation or status. I have already disused why these cases do not aid the defence of Noticee 2. For the same reasons discussed therein, I find that the precedents do not aid the defence of Noticee 3 as well.
- (c)** In the case of Action Financial Services Ltd. (*supra*), the Adjudicating Officer gave benefit of doubt to certain noticees as nothing was brought on record regarding their individual roles and responsibilities in the company in terms of board meeting minutes, AGM minutes etc. The said cases are clearly distinguishable from the facts of the present case because in the present case, Mr. Vijay Kancharla had attended 16 out of 45 board meetings of BGL, attended 5 out of 19 audit committee meetings of BGL and signed the financial statements of BGL for 4 out of the 6 years during the Investigation Period. Further, the Action Financial Services Ltd. (*supra*) case is distinguishable from the present case on another ground. In the Action Financial Services Ltd., the benefit of doubt was given to noticees who were additional director and independent directors of the company. However, in the present case Mr. Vijay Kancharla is a Promoter and he was a Whole Time Director of BGL.
- (d)** I find it appropriate to place reliance on the case of N. Narayanan vs. The Adjudicating Officer, SEBI, Civil Appeal Nos. 4112-4113 of 2013 (D. No. 201 of

2013), decision dated April 26, 2013, wherein a Whole Time Director had made a similar contention that he was dealing with a particular department and he had relied on the auditor's statements in financial matters, therefore, he should not be held personally liable. The Hon'ble SC held:

*"40. The Appellant has taken the stand, as already stated, that even though he was a whole time Director he was not conversant with the accounts and finance and was only dealing with the human resource management of the company, hence, he had no fraudulent intention to deceive the investors. **We find it difficult to accept the contention.** The Appellant, admittedly, was a whole time Director of the company, as regards the preparation of the annual accounts, the balance-sheet and financial statement and laying of the same before the company at the Annual General Meeting and filing the same before the Registrar of the Companies as well as before SEBI, the Directors of the company have greater responsibility, especially when the company is a registered company. **Directors of the companies, especially of the listed companies, have access to inside knowledge, such as, financial position of the company, dividend rates, annual accounts etc. Directors are expected to exercise the powers for the purposes for which they are conferred.** Sometimes they may misuse their powers for their personal gain and makes false representations to the public for unlawful gain."*

(emphasis supplied)

- (e) Mr. Vijay Kancharla (Noticee 3) has placed reliance on the MCA circular dated March 25, 2011 to submit that extra care should be taken in examining cases where independent directors are identified as "officer in default". In this regard, as Mr. Vijay Kancharla is a Promoter and was a Whole Time Director of BGL, the said circular does not apply to him.
- (f) The Interim Order cum SCN alleges that Mr. Vijay Kancharla, as a member of the audit committee during the Investigation Period, had failed to ensure that the published financial statements were in accordance with the applicable accounting standards and presented a true and fair view of the Company's affairs, and hence

failed to discharge his duties, as required under regulation 18(3) read with Part C of Schedule II of the LODR Regulations. As noted earlier, Mr. Vijay Kancharla had attended 6 audit committee meetings out of the 19 audit committee meetings held during the FYs 2015-2016 to 2019-2020. The role of audit committee is defined in Part C of Schedule II of LODR Regulations which includes reviewing with the management the annual financial statements before submission to the board for approval and oversight of the listed entity's financial reporting process to ensure that the financial statement is correct, sufficient and credible. It further reads as follows:

"(4) reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:

(a)..

(b)..

(c) major accounting entries involving estimates based on the exercise of judgment by management;"

Considering the role of Mr. Vijay Kancharla, I find that he has violated regulation 18(3) read with Part C of Schedule II of the LODR Regulations.

(g) Therefore, I find that Vijay Kancharla (Noticee 3) failed to discharge his duties as a director during FYs 2014-15 to 2019-20. Accordingly, he is directly liable for the violation of clauses 49(I)(D)(1)(b) and (2)(b)(h) of the erstwhile Listing Agreement (for the FY 2014-15) and regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2)(7)(8), 4(2)(f)(iii)(1),(2),(3),(6),(7),(12) of LODR Regulations (For the FYs 2015-16 to FY 2019-20) and vicariously liable for the violation of clauses 49 (I)(C)(1)(a) and 50 of the erstwhile Listing Agreement (for the FY 2014-15).

158. Role of Noticees 2 and 3 in non-maintenance of Structured Digital Database (SDD)

(a) I note that the Interim Order cum SCN alleges that Mr. M Suresh Kumar Reddy and Mr. Vijay Kancharla failed to ensure the implementation and maintenance of SDD containing the names of such persons or entities with whom UPSI was shared, as required w.e.f April 01, 2019, thereby violating regulation 3(5) of PIT Regulations. The said provision as it existed at the relevant time reads as follows:

“The board of directors shall ensure that a structured digital database is maintained containing the names of such persons or entities as the case may be with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available. Such databases shall be maintained with adequate internal controls and checks such as time stamping and audit trails to ensure non-tampering of the database.”

- (b) BGL has admitted in its reply that SDD was installed in December, 2022. Therefore, Mr. M. Suresh Kumar Reddy and Mr. Vijay Kancharla, who were members on the board of directors of BGL, are in violation of regulation 3(5) of PIT Regulations.

159. Role of Mr. Y Ramesh Reddy (Noticee 4), Independent Director, Member of Audit Committee, Group CFO and Executive Director

- (a) I note that Interim Order cum SCN alleges that Mr. Y Ramesh Reddy was associated with BGL in multiple roles, as given below:

Table no. 21

Role	From	To
Independent Director & Audit Committee Member	26/06/2012	09/05/2016
Executive Director	09/05/2016	20/04/2017
Group CFO	09/05/2016	08/05/2021

- (b) As per the minutes of the Annual General Meeting dated December 27, 2016 (refer **Image 10** below), Mr. Y Ramesh Reddy was appointed as an Executive Director designated as “Executive Director-Finance & Group Chief Financial Officer” for a period of 5 years effective from May 09, 2016.

Image 10



COPY OF EXTRACT OF MINUTES OF THE 17TH ANNUAL GENERAL MEETING OF MEMBERS OF LYCOS INTERNET LIMITED HELD ON TUESDAY THE 27TH DECEMBER, 2016, AT 10:00 A. M. AT ELLAA HOTELS, HILL RIDGE SPRINGS, GACHIBOWLI, HYDERABAD – 500032.

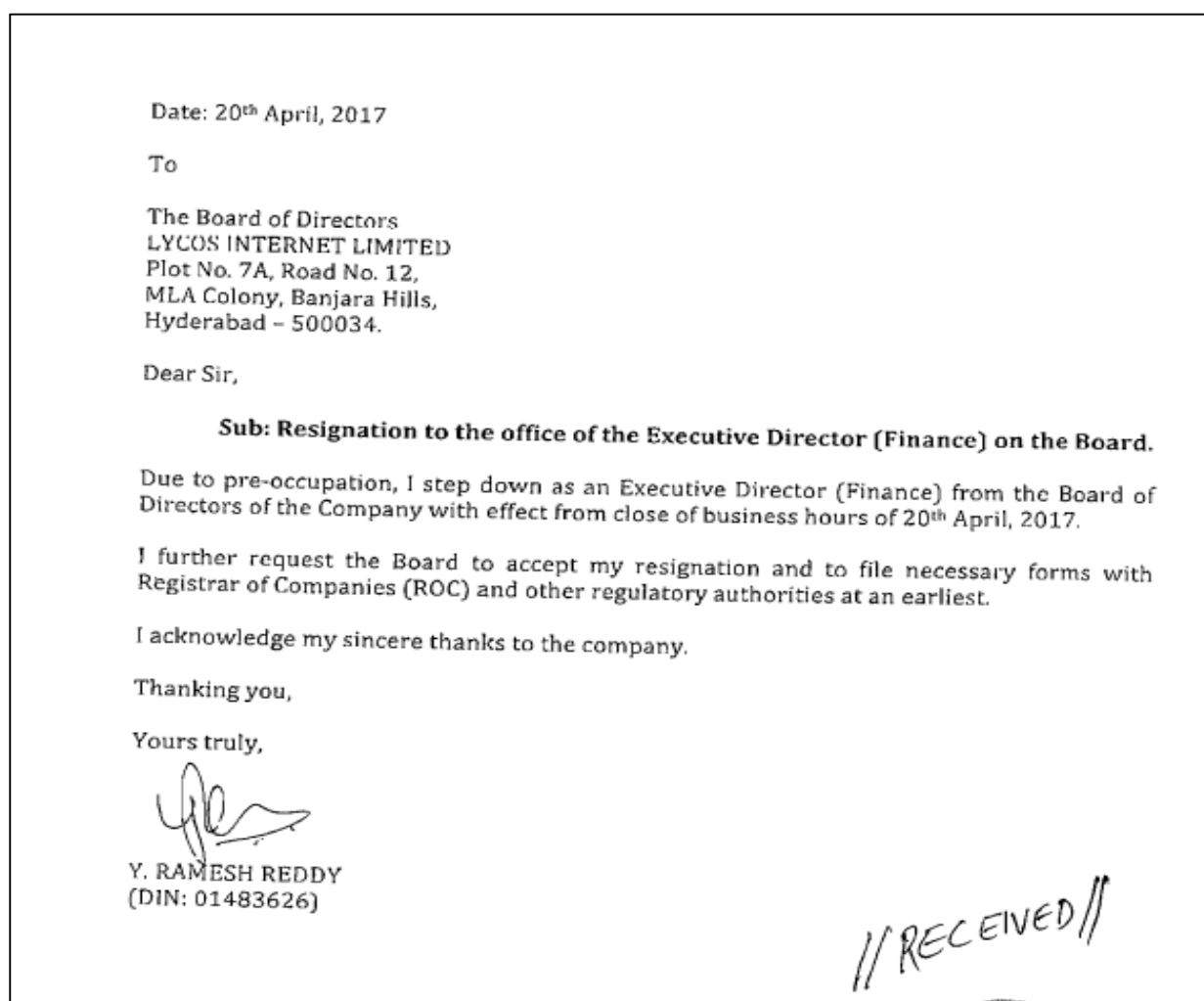
TO APPOINT MR. Y. RAMESH REDDY AS EXECUTIVE DIRECTOR (FINANCE) & GROUP CFO

RESOLVED THAT pursuant to the provisions of Sections 196, 197, 203 and any other applicable provisions of the Companies Act, 2013 and the rules made thereunder (including any statutory modification(s) or re-enactment thereof for the time being in force), read with Schedule V to the Companies Act, 2013, the consent of the Company, be and is hereby accorded to the appointment of Mr.Y.Ramesh Reddy, (DIN: 01483626), as an Executive Director of the Company designated as "Executive Director-Finance & Group Chief Financial Officer" for a period of five years effective from 09th May, 2016, on the terms and conditions of appointment and remuneration as contained in his appointment letter and the Board of Directors be and is hereby authorized to alter and vary such terms of appointment and remuneration so as to not exceed the limits specified in Schedule V to the Companies Act, 2013, as may be agreed to by the Board of Directors and Mr.Y.Ramesh Reddy.

RESOLVED FURTHER THAT the Board of Directors of the Company (which term shall be deemed to include any Committee of the Board constituted to exercise its powers, including the powers conferred by this Resolution), be and is hereby authorized to take all such steps as may be necessary, proper and expedient to give effect to this Resolution.

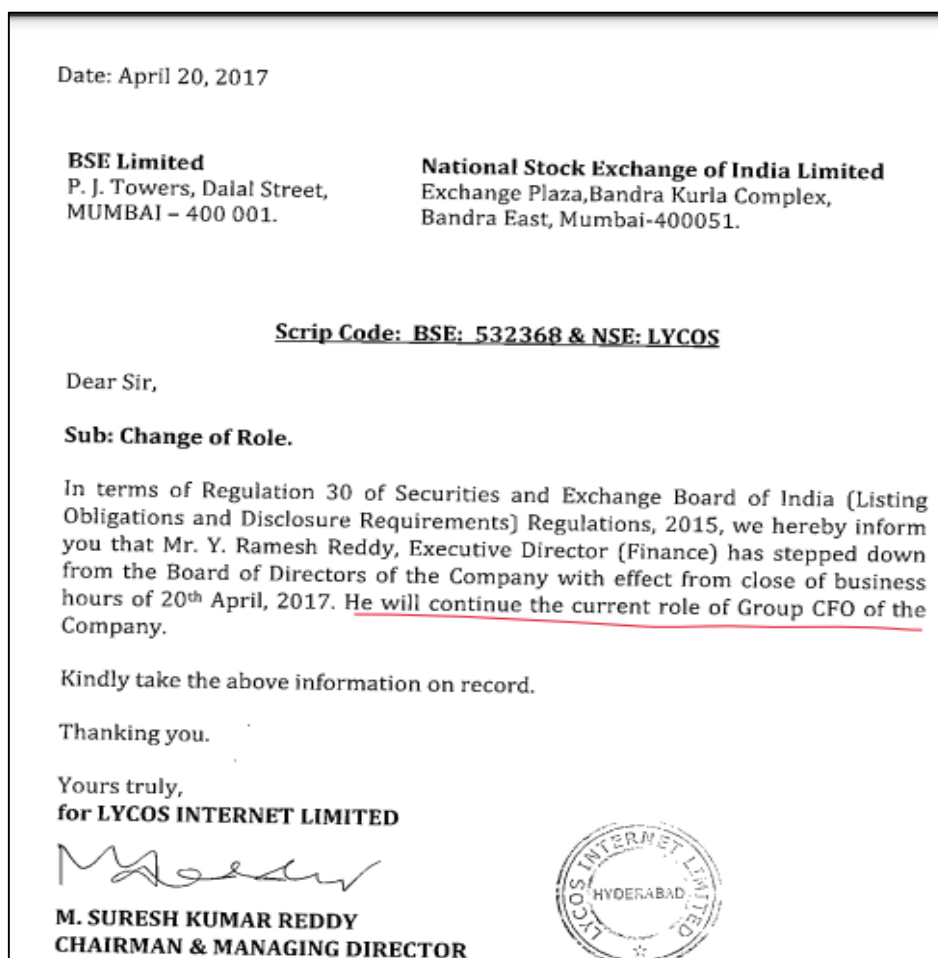
- (c) Mr. Y Ramesh Reddy's resignation letter addressed to the board of directors of BGL dated April 20, 2017 only states that he is stepping down from the post of Executive Director (Finance) with effect from April 20, 2017. The same is reproduced below:

Image 11



- (d) Further, as per BGL's disclosure dated April 20, 2017 to NSE, Mr. Y Ramesh Reddy would continue the role of Group CFO of BGL. The said disclosure is reproduced below:

Image 12



- (e) The Interim Order cum SCN *inter alia* alleges that Mr. Y. Ramesh Reddy was the Group CFO of the Company from May 09, 2016 to May 08, 2021. In this regard, Mr. Y. Ramesh Reddy has submitted that on March 15, 2017, he resigned as Executive Director and pursuant to his resignation he was not associated with BGL in any manner. Further, he has stated that due to his pre-occupation and complexity of the job involved, he resigned from the post of Executive Director along with the post of CFO which was accepted by Board on April 20, 2017. Mr. Y Ramesh Reddy has also submitted documents in support of his claim that he was employed with “Edvenswa Tech Pvt. Ltd.” during FY 2019-20 and with “Aetas Infra Solutions Private Limited” during FY 2017-18. Although the evidence on record shows that Mr. Y Ramesh Reddy has resigned from the post of Executive Director, there is no proof to show that he had resigned from the post of Group CFO as well. The Annual Reports of BGL for FYs 2018-19 and 2019-20 do not carry the name of Mr. Y Ramesh Reddy in the list of KMPs/ any other capacity. I also note that the BSE

website, under corporate information of BGL, lists Mr. Y Ramesh Reddy as the Group CFO even as on date. In this regard, I note that Interim Order cum SCN alleges that he was the Group CFO only till May 08, 2021. Therefore, this information on the BSE website does not appear to have been updated and cannot be relied upon. That being the case, the allegation in the SCN that he continued to be associated with BGL till May 08, 2021 is not entirely substantiated. Considering the aforesaid, in the absence of cogent evidence, I find it appropriate to only consider his tenure in BGL from May 09, 2016 till April 20, 2017 during which he functioned as an Independent Director & audit committee member and Executive Director. Thus, the revised tenure of Noticee 4 in BGL is as follows:

Table no. 22

Role	From	To
Independent Director & Audit Committee Member	26/06/2012	09/05/2016
Executive Director and Group CFO	09/05/2016	20/04/2017

- (f) Mr. Y. Ramesh Reddy, had attended all the audit committee meetings held between FYs 2014-2015 to FY 2015-2016. He was the Chairman of the Audit Committee till May 09, 2016. Considering the misrepresentations in the financial statements of BGL as discussed in this Order, it is apparent that the Audit Committee failed to ensure that the financial reports recommended by it to the Board for approval gave a true and fair view of the financial status of the Company. Hence, I find that Noticee 4 failed to discharge his duties, as required under Clause 49 III D of the erstwhile Listing Agreement (reproduced below) and Regulation 18(3) read with Part C of Schedule II of the LODR Regulations (reproduced above).

49. CORPORATE GOVERNANCE

III. Audit Committee

D. Role of Audit Committee The role of the Audit Committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;

4. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:

- a. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013*
- b. Changes, if any, in accounting policies and practices and reasons for the same*
- c. Major accounting entries involving estimates based on the exercise of judgment by management*
- d. Significant adjustments made in the financial statements arising out of audit findings*
- e. Compliance with listing and other legal requirements relating to financial statements*
- f. Disclosure of any related party transactions*
- g. Qualifications in the draft audit report*

5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;

12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;

13. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;

14. Discussion with internal auditors of any significant findings and follow up there on;

15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;

16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;

20. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee. Explanation (i): The term "related party transactions" shall have the same meaning as provided in Clause 49(VII) of the Listing Agreement"

(g) Further, he had attended 19 out of 20 board meetings of BGL held between FYs 2014-2015 to FY 2016-2017. He had also signed financial statements for the FY 2015-2016. He was also a KMP of the Company, as per the disclosure made in Annual Report of BGL for the FY 2016-17 and FY 2017-18. Therefore, he failed in his duties as an Independent Director & Audit committee member, Executive Director and thereby violated regulations 4(2)(f)(ii)(2)(7)(8),

4(2)(f)(iii)(1)(2)(3)(6)(7)(12) of LODR Regulations. The aforesaid provisions have been reproduced above.

- (h)** The Interim Order cum SCN alleges that he was the Group CFO and that he failed in his responsibilities resulting in violation of regulation 4(2)(f)(i)(2) of LODR Regulations. The SCN specifically charges Noticee 4 on the understanding that he performed the functions of a CFO as recognized under Companies Act. Noticee 4 has argued that was not involved in the management of finance and accounts of BGL and that BGL had a full time CFO (Noticee 5). In this regard, I note that there is no specific evidence on record to show the impugned role of Noticee 4 as a CFO of BGL. While he was designated as “Group CFO”, the nomenclature itself cannot render him a Chief Financial Officer as is understood under Companies Act and LODR Regulations. This is of course without prejudice to the fact that Noticee 4 was both a director and a KMP of the company playing a significant role therein. Therefore, while Noticee 4 can be said to be have failed in his responsibilities as director/ KMP, I do not find adequate evidence to state that he failed in his responsibilities as a CFO of BGL.
- (i)** Argument of Noticee 4 that impairment was reflected in the books of BGL after his resignation and that hence he cannot be made responsible is untenable as it has been held that during his tenure of directorship, BGL failed to carry out annual impairment testing, and followed incorrect accounting policy.
- (j)** Noticee 4 has relied on the case of Samsher Ranjit Garud (supra). In the aforesaid case, the appellant Independent Director’s tenure was between March 29, 2010 to October 10, 2016 and the misrepresentations were made by the company therein before March 29, 2010. Therefore, Hon’ble SAT held that the appellant cannot be held responsible for any violation which had occurred prior to his tenure. However, in the present case, as stated above, he has been held to be responsible only for the violations of BGL during his period of directorship.
- (k)** Noticee 4 has argued that none of his roles involved day to day management and maintenance of finance and accounts of BGL or its subsidiaries or management and monitoring of operations of any division or subsidiary of BGL or any financial control

or management. In this regard, I note that as an Independent Director and Audit Committee Member and later as Executive Director and Group CFO, it was his responsibility to ensure that the financial statements give a true and fair view of the Company's affairs. The violations observed in this Order are not minor, and they completely overhaul the picture of financial statements projected by the Company.

- (I) Mr. Y. Ramesh Reddy has contended that no specific role has been attributed to him to enable him give a suitable reply to the Interim Order cum SCN. Without specifying specific role in the wrongdoing, if any, harsh directions have been issued against him. According to him, the SCN is the first limb of the quasi-judicial process and the findings/ allegations in the same ought to be spelt out specifically and not vaguely. He has placed reliance on the case of: Canara Bank v/s. Debasis Das, (2003) 4 SCC 557. He has also relied on the MCA Circular dated March 25, 2011, MCA Circular dated March 02, 2020 and RBI Circular dated April 23, 2015 to submit that Independent Directors or Non- Executive Directors should not be held responsible unless sufficient evidence exists or unless it is conclusively established that the default had taken place with their consent or connivance. Noticee 4 has also placed reliance on the case of Sayanti Sen (supra). In this regard, I note that the Interim Order cum SCN clearly brings out the number of board meetings attended by him, the number of audit committee meetings attended by him, that he was a signatory to the financial statements for FY 2015-16 and that he was a KMP for FY 2016-17. I also note that under regulation 18(3) read with Part C of the LODR Regulations, the role of Audit Committee *inter alia* involves:

"(4) reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:

(a)..

(b)..

(c) major accounting entries involving estimates based on the exercise of judgment by management;"

Further, in the case of Mr. N. Narayanan vs. The Adjudicating Officer, Appeal No. 29 of 2012, decision dated October 05, 2012, Hon'ble SAT held that:

"...The members of the audit committee are expected to exercise due oversight of the company's financial reporting process and to ensure that the financial statement is correct, sufficient and credible.

It is also expected to conduct a meaningful review with special emphasis on major accounting entries and significant adjustments made in the accounts before putting up the statements for the approval of the Board. The board of directors of the company has entrusted the audit committee with an onerous duty to see that the financial statements are correct and complete in every respect. In this background, the members of the audit committee cannot take shelter under the verifications made by the internal auditor and other professionals. The details extracted in the show cause notice and the impugned order illustrate that there were several prominent irregularities which should have alerted the directors. The appellant's learned counsel submitted that abnormal profits, mismatch in receivables, insufficient security deposit in the bank did not act as an alert when the accounts have been certified by qualified professionals. We cannot accept the stand of the learned counsel for the appellants. The whole time director attending to the affairs of the company on a full time basis and the directors being members of the audit committee could not have ignored the "red flag" while considering the accounts of the company."

(m) As already discussed earlier, the cases of Sayanti Sen, Amazan Capital and Action Financial Services do not apply to the facts of this case even in the context of Noticee no. 4. Noticee no. 4, for a considerable period, was an executive director and not merely an independent director. His participation in several board meetings and audit meetings and his affirmation of the financial statements for FY 2015-16 have all been recorded above. For these reasons, the case laws cited by him do not come to his aid.

(n) In view of the above facts and circumstances, I find that Noticee 4 has violated the following provisions of law:

- (i) For failure to perform duties as a director:** Regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2)(7)(8), 4(2)(f)(iii)(1)(2)(3)(6)(7)(12) of LODR Regulations (reproduced above).
- (ii) For failure to perform duties as member of audit committee:** Clause 49 III D of erstwhile Listing Agreement and Regulation 18(3) read with Part C of Schedule II of the LODR Regulations (reproduced above)

160. Role of Mr. Y. Srinivasa Rao (Noticee No. 5), CFO of BGL

- (a) The Interim Order cum SCN alleges that Mr. Y. Srinivasa Rao (Noticee 5), being the CFO of BGL from January 01, 2015 to March 25, 2022 failed in his duties as a CFO and thereby violated regulations 4(2)(f)(i)(2) of LODR Regulations r/w Section 27 of the SEBI Act and Section 24 of SCRA. Further, by being signatory to false CEO / CFO certification he violated Clause 49(IX) of the erstwhile Listing Agreement (For the FY 2014-15) & regulation 17(8) of LODR Regulations (For the FYs 2015-16 to FY 2019-20).
- (b) As reproduced above, regulation 4(2)(f)(i)(2) of LODR Regulations makes the senior management responsible for conducting themselves in a manner to meet the expectations of operational transparency to stakeholders. Noticee 5 being the CFO had the responsibility to ensure that the financial statements of BGL reflected the true state of affairs. He has admitted in his reply that being the CFO of BGL, he had to supervise the accounting team to *inter alia* ensure for every quarter and year end preparation of trial balance, P&L account and balance sheet for standalone financials. Thus, Noticee 5 had knowledge of the various line items of the above financial statements. By signing all the financial statements of BGL from the FY 2014-15 to FY 2019-20 which did not contain the correct treatment of impairment of assets, R&D expenses etc as discussed in detail in this Order, Noticee 5 has not acted in a way that can be considered as transparent to its stakeholders.
- (c) Further, by signing the CEO/ CFO certificate for FYs 2014-15 to FY 2019-20 of BGL, Noticee 5 gave a false assurance to stakeholders regarding the financial health of BGL. Thus, I find that Noticee 5 has violated regulations 4(2)(f)(i)(2) of LODR Regulations and Clause 49(IX) of the erstwhile Listing Agreement (For the FY 2014-15) & regulation 17(8) of LODR Regulations (For the FYs 2015-16 to FY 2019-20).

Precedents relied upon by Noticees 2 to 5

161. Noticees 2 to 5 have also argued that the Interim Order cum SCN has not brought out any concrete figure of the loss incurred by the Indian investors due to the violations, if any, alleged to be committed by BGL and its directors. This shows that the Interim Order cum SCN is based on surmises and conjectures. I do not find merit in this argument. Financial

frauds and inadequate material disclosures may create huge investor losses by keeping them in the dark around the true state of affairs of the company. Further, computation of loss caused is not a necessary requirement to determine whether the act or omission amounted to a fraud or manipulative device.

162. Noticees 2 to 5 have argued that they have only violated the provisions of LODR Regulations and not PFUTP Regulations as they have neither gained any unfair advantage nor caused any loss to the investors. In this regard, in Issue (4), I have explained in detail how the activities of BGL constituted fraud. Therefore, this contention is without merit. Considering the same, the cases of Dalmia Industrial Development Limited (*supra*) and GV Films (*supra*) does not further the contentions raised by Noticees 2 to 5.

163. Noticee 2 to 5 have relied upon the case of Brij Lal Mittal & Ors. (*supra*) to submit that simply because a person is a director of the company, it does not necessarily mean that he fulfils both the requirements of being in “charge of” and “responsible to” the company for the conduct of its business. In this case, the prosecution against the directors of the company was quashed as there was no allegation in the complaint that they were in charge of and responsible for the conduct of the business of the company at the material time. The aforesaid case was a prosecution under the Drugs and Cosmetics Act, 1940 which is a criminal proceeding, where the standard of proof required is higher. However, the present case stands on a different footing. In the current case, Noticee 2 is the Promoter and was the Chairman and Managing Director of BGL. Noticee 2 has not contended that instead of him someone else was “in charge of” and “responsible for” the conduct of the business. A Managing Director is primarily responsible for the conduct of the business and administration of the company. Further, Noticee 2 was not arrayed merely because he is a director. There was material on record in terms of his attendance in board meetings, signing of financial statements etc., to demonstrate his knowledge of the violations discussed in this Order. Similarly, Noticee 3 is a Promoter and was a Whole Time Director who had attended board meetings, audit committee meetings, signed financial statements and attended board meetings of subsidiaries which had recorded impairment. Noticee 4 was an Independent Director (for some period of time), Member of Audit Committee, Executive Director, a KMP, had attended board and audit committee meetings, and had signed

financial statements. Noticee 5 had signed financial statements and CEO/ CFO certificates of BGL.

164. Similarly, in the case of Sham Sunder & Ors. (supra), the Hon'ble SC held that: *"But we are concerned with a criminal liability under penal provision and not a civil liability. The penal provision must be strictly construed in the first place. Secondly, there is no vicarious liability in criminal law unless the statute takes that also within its fold. Section 10 does not provide for such liability. It does not make all the partners liable for the offence whether they do business or not."* Therefore, the principles laid down in the above decisions are not applicable to the facts and circumstances of this case.

165. Further, the case of Ram Kishan Rohtagi (supra) does not apply to the facts of the present case for the following reasons. The aforesaid case did not include any evidence against the directors who were made parties to the case, whereas this Order brings out the role of Noticees 2 to 5 in terms of their attendance in board meetings, signature on financial statements etc, to demonstrate their knowledge or complicity in the violations discussed in this Order. The aforesaid case was a criminal case regarding food adulteration offence, whereas the present case is in the nature of civil proceeding where the standard of proof is "preponderance of probability" and not "beyond a reasonable doubt". In the case of Pritha Bag (supra), the appellant therein was an additional director whereas in the present case none of the Noticees were Additional Directors of BGL, rather they occupied crucial positions such as Promoter, Whole Time Director, Independent Director, Member of Audit Committee and CFO. During the tenure of the appellant in the aforesaid case, she had also not attended any board meeting, received any sitting fees or benefited from any quarter, which is not the case with Noticees 2 to 5. Thus, the aforesaid case does not apply. In the case of Brooks Laboratories Ltd. (supra), the noticee therein was an Additional Director who neither took part in day to day activities nor attended any board meeting nor signed any financial statements etc. Thus, the facts of the aforesaid case do not help Noticees 2 to 5.

(4) Whether there was a violation of PFUTP Regulations?

166. The Interim Order cum SCN alleges that the misrepresentation of financial statements and the various violations of LODR Regulations by BGL operated as a device / scheme to defraud the investors in the securities market resulting in violation of Regulation 3(c), 3(d), 4(1) and 4(2)(f), (k) & (r) of PFUTP Regulations read with section 12A (b) & (c) of the SEBI Act. The said provisions are reproduced below:

SEBI Act

PROHIBITION OF MANIPULATIVE AND DECEPTIVE DEVICES, INSIDER TRADING AND SUBSTANTIAL ACQUISITION OF SECURITIES OR CONTROL

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. No person shall directly or indirectly—

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

PFUTP Regulations

3. Prohibition of certain dealings in securities

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a [manipulative,] fraudulent or an unfair trade practice in securities *[markets].*

***[Explanation.— For the removal of doubts, it is clarified that any act of diversion, misutilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any*

device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market.]

2) Dealing in securities shall be deemed to be a ** [manipulative] fraudulent or an unfair trade practice if it involves ***[any of the following]:—

(f) *[knowingly] publishing or causing to publish or reporting or causing to report by a person dealing in securities any information *[relating to securities, including financial results, financial statements, mergers and acquisitions, regulatory approvals,] which is not true or which he does not believe to be true prior to or in the course of dealing in securities;

#[(k) disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading in a reckless or careless manner and which is designed to, or likely to influence the decision of investors dealing in securities;]

(r) *[knowingly] planting false or misleading news which may induce sale or purchase of securities.

*Inserted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2018 w.e.f. February 1, 2019.

**Inserted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Second Amendment) Regulations, 2020 w.e.f. October 19, 2020.

***Substituted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2018 w.e.f. February 1, 2019. Before the substitution the words read as "fraud and may include all or any of the following, namely"

#Substituted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2022 w.e.f. January 25, 2022. Before the substitution the provision read as follows: "disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading and which is designed or likely to influence the decision of investors dealing in securities;" The provisions was previously substituted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2018 w.e.f. February 01, 2019 and before the said substitution the provision read as follows: "an advertisement that is misleading or that contains information in a distorted manner and which may influence the decision of the investors"

- 167.** Noticees have contended that there are multiple options for accounting treatment of any income and / or expense and so the allegation that the accounting treatment has been carried out in a head different from the one envisaged in Interim Order cum SCN cannot lead to any violation of SEBI Act and PFUTP Regulations. LODR Regulations mandate compliance with Accounting Standards. Financial statements of a listed company are required to be prepared in accordance with accounting standards. Such financial statements facilitate an investor to analyse and identify changes in financial results of a company over time and to take informed investment decisions. Adherence to accounting standards ensures that the listed company ensures consistency, transparency and enhance accountability thereby *inter alia* reducing the risk of fraud. Financial statements that do not comply with the strict letter and spirit of the Accounting Standards, fall foul of the mandate under LODR Regulations with respect to disclosures of financials of the company.
- 168.** Regulation 3(c) of PFUTP Regulations states that no person shall directly or indirectly employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed on a recognized stock exchange. Regulation 3(d) of PFUTP Regulations states that no person shall directly / indirectly engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed on a recognized stock exchange in contravention of the provisions of the SEBI Act or the rules and the regulations made there under. Regulation 4(1) of the PFUTP Regulations *inter alia* seeks to prohibit any scheme to manipulate the books of accounts or financial statements of a company that would directly / indirectly manipulate the price of securities of that company. Regulation 4(2)(f) of PFUTP Regulations states that knowingly publishing any information relating to securities, including financial results and financial statements, which are not true or which he does not believe to be true prior to or in the course of dealing in securities is a deemed fraudulent practice. Regulation 4(2)(k) and regulation 4(2)(r) of PFUTP Regulations also deems the following as fraudulent practice: *“disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading and which is designed or likely to influence the decision of investors dealing in securities and knowingly planting false or misleading news which may induce sale or purchase of securities”*.

169. Financial Statements play a critical role in influencing the decision of investors to deal in or hold on to securities of a listed company. Material inflation of profits and non-disclosure of crucial events, as had been clearly done in the present case, would naturally mislead and influence the investment/ disinvestment decisions of the investors. The absence of impairment testing between FY 2016-17 and FY 2018-19, despite the material adverse event in April 2016 (promulgation of GDPR) and its deleterious impact on BGL's business, kept stakeholders in the dark for this extended period of time. Even when it was belatedly recognised in FY 2019-20, the impairment losses of INR 868 crores were recognised as OCI, and not into profit and loss. The profit before tax for the FY 2019-20 would have been a loss of INR 251.16 crores as against a profit of INR 617.14 crores. The absence of timely recognition of impairment over several years, and inflated profits even when it was belatedly recognised, are a direct consequence of the failure to comply with accounting standards. From the facts and circumstances of this case, on a preponderance of probability, I am convinced that the egregious disclosure violations and misstatements were not merely instances attributable to negligence or occasioned by lack of due care and caution; rather, the financial misstatements and disclosure violations were knowingly done. This misled public investors to believe that the company's performance was better than it actually was, thereby inducing persons to invest in BGL or exiting investors to remain invested.

170. Noticees have also contended that Interim Order cum SCN has failed to bring out findings regarding any "inducement" which is required to constitute "fraud" under PFUTP Regulations as held in SEBI vs. Kanaiyalal Baldevbhai Patel and Ors. (2017) 15 SCC 753. Noticees have also relied upon the case of R.K Global (supra) to submit that higher degree of probability must exist before fraudulent charge is established. Further, reliance has been placed on the case of Ram Sharan Yadav (supra) to submit that a charge of corrupt practice has to be proved by convincing evidence and not merely by preponderance of probabilities. I find that the case of Ram Sharan Yadav (supra) is not applicable, as it relates to standard of proof in a corruption case before the Court, whereas the current case is a quasi-judicial proceeding of civil nature.

171. I note that to prove a violation of Section 12A of the SEBI Act, or Regulation 3(b), (c) and (d) of PFUTP Regulations, the test is to determine whether the device or scheme would operate as a fraud or deceit on investors dealing in such securities. The misrepresented financial statements and other inadequate/ false/ misleading disclosures, by its very nature,

is bound to induce investors (*who are oblivious to the true state of affairs of the company*) to continue to deal in the company's securities. Inevitably, this would result in artificially inflated prices because of such concealment of material information. The Explanation to Regulation 4(1) of the PFUTP Regulations, which was inserted on October 19, 2020, as clarification (*i.e. something which was earlier implicit has now been made explicit by adding the aforesaid Explanation*) also effectively reiterates the prohibitions stated in the Section 12A of the SEBI Act and regulation 3 of the PFUTP Regulations. The Explanation which was inserted "for the removal of doubts" clarifies that any device, scheme or artifice to manipulate financial statements that would directly or indirectly manipulate price of the company's securities would be deemed to have always been considered as manipulative, fraudulent or unfair trade practice in the securities market. Accordingly, I find that BGL has violated Regulation 3(c), 3(d) and 4(1) of PFUTP Regulations for the impugned period.

172. Post amendment with effect from February 2019, Regulation 4(2) of PFUTP Regulations lists thereunder those actions or omissions which are deemed to be fraud. The Interim Order cum SCN *inter alia* alleges that the accounting irregularities and other disclosure violations resulted in violation of regulations 4(2)(f), (k) and (r) of PFUTP Regulations. In the foregoing paragraphs of this Order, I have concluded that the financial statements were in fact egregiously misstated due to accounting irregularities. As stated above, once the actions/ omissions listed in these clauses are factually established, the law does not require separate finding of 'fraud'. Accordingly, I find that in addition to Regulation 3(c), 3(d) and 4(1) of PFUTP Regulations, during FY 2019-20, BGL violated Regulation 4(2)(f), (k) & (r) of PFUTP Regulations.

173. The Hon'ble Supreme Court in the matter of N. Narayanan vs. Adjudicating Officer, SEBI AIR 2013 SC 3191 had *inter alia* emphasised the adverse impact of incorrect information, including inflation of profits, on the markets. The Hon'ble SAT, in the matter of V. Natarajan vs. SEBI (appeal no. 104 of 2011) decided on June 29, 2011, held that the publication of false and misleading information which may induce the public to sell or purchase securities would also come within the ambit of unfair trade practice in securities.

174. Fraudulent schemes of this nature in securities markets cannot be perpetrated by one or two persons alone. There are likely to be several persons who may be involved in various

aspects of fraud, the activities of whom when individually seen in isolation may appear genuine or mundane. Fraudulent schemes of this nature in securities markets usually involve co-ordinated activity by several connected persons individually playing separate parts. By preponderance of probability, Noticees 2 to 5 participated in the fraudulent scheme involving misrepresentation of financial statements and disclosure violations which enabled the promoter group to offload their shareholding in BGL. The role played by these Noticees in the company have already been explained in the foregoing paragraphs. Further, Noticees 2 & 3 are the promoters of BGL who directly benefited from this fraudulent scheme.

175. The Interim Order cum SCN also alleges that from September 30, 2014, the share price of BGL had generally declined over a period of time. Had the Company not resorted to accounting irregularities, the Company's actual profits over the years would have been significantly lesser than the reported profits. Further, the assets and reserves over time would also be significantly different from what were disclosed in the balance sheet. The SCN alleges that the same would have led to a much steeper and quicker decline in the share prices. During the Investigation Period, the promoters' shareholding in BGL decreased from 40.45% on March 31, 2014 to 13.96% on March 31, 2020 and further to 3.51% as on June 30, 2022. The Interim Order cum SCN alleges that the promoters thus offloaded shares at prices which were artificially propped up by showing higher profits through accounting irregularities. It appears that the motive behind the fraudulent scheme of manipulation of financial statements and LODR violations was to enable the offloading of shares by the promoter group entities at inflated prices.

176. In this regard, I note that in FY 2014-15, the price of BGL touched a high of INR 66 (closing price) on September 23, 2014. Thereafter, on September 29, 2014 and September 30, 2014, the closing price fell to INR 64.75 and INR 64.9 respectively. On March 31, 2015, the closing price was INR 28.65. The closing prices yearly thereafter along with the promoters' shareholding are tabulated below:

Table no. 23

Date	Close price (INR)	Promoter shareholding (%)
31-Mar-14	15.19	40.45
31-Mar-15	28.65	39.20
31-Mar-16	18.85	34.38

Date	Close price (INR)	Promoter shareholding (%)
31-Mar-17	7.71	27.63
28-Mar-18	4.64	20.01
29-Mar-19	3.14	18.32
31-Mar-20	3.1	13.97
31-Mar-21	8.26	7.25

177. In relation to the above, Mr. M. Suresh Kumar Reddy (Noticee 2) has argued that pursuant to the announcement of the impairment of assets the price again started rising since the market accepted the impairment as a positive news. He says that the major sale by the promoter took place from July 2017 to June 2020 and the shareholding of the promoter came down from around 27% to around 12%. The impairment of loss has been carried out in FY 19-20 and the same came in public domain on June 25, 2020. It is observed from price volume chart that pursuant to impairment of assets the price of the scrip has steadily gone up. This, according to the Noticee, rebuts the argument of SEBI that promoters were enriched or earned unlawful gains by selling the shares prior to impairment, since after the eventual impairment the price went up and not down. In this regard, I note that even prior to July 2017, the promoter shareholding had come down from 34.38% as of March 2016 to 27.63% as of March 2017. Note that the GDPR was enacted in April 2016, and effective May 2018. In addition, the announcement on June 25, 2020 containing the audited financial results for the year quarter and year ended March 31, 2020, categorized major items such as “impairment” in OCI instead of being classified in profit or loss in the P&L statement. If the “impairment” would have been categorized in profit or loss, financials of FY 2019-20 would have shown loss of INR 251.16 crores in gross profit instead of a profit of INR 617.14 crores. Thus, misleading information was given by BGL. The correct information may have perhaps had a different impact on the views of the investors. Untrue financial statements are bound to distort market prices. The rebuttal made by the Noticees that the prices sharply moved up in 2020 even post the disclosure of the impairment is without merit for 2 reasons. (1) As is already established, this impairment was not done in the profit and loss account of the company, and instead taken below the line into OCI and (2) the sharp rise of the scrip of BGL in 2020 can be attributed to other factors such as the post-COVID rebound in prices across scrips in the Indian securities market. Therefore, to draw an inference that the impairment was seen as “positive news” which led to price rise, as claimed by Noticee 2, would be incorrect. At any rate, this does not take away the fact that there was repeated

misstatement of financials, and an attempt to present a financial picture far removed from and better than reality. In view of the above, I find this contention to be untenable.

178. In *N Narayanan vs Adjudicating Officer, SEBI* on April 26, 2013, Hon'ble Supreme Court of India held that *"Company though a legal entity cannot act by itself, it can act only through its directors. They are expected to exercise their power on behalf of the company with utmost care, skill and diligence. This Court while describing what is the duty of a Director of a company held in Official Liquidator v. P.A. Tendolkar (1973) 1 SCC 602 that a Director may be shown to be placed and to have been so closely and so long associated personally with the management of the company that he will be deemed to be not merely cognizant of but liable for fraud in the conduct of business of the company even though no specific act of dishonesty is provide against him personally. He cannot shut his eyes to what must be obvious to everyone who examines the affairs of the company even superficially."* Further, in *SEBI vs. Gaurav Varshney (2016)14 SCC 430*, it has been held that *"officers of a company who are responsible for acts done in the name of the company are sought to be made personally liable for acts which result in criminal action being taken against the company. It makes every person who, at the time the offence was committed, was in charge of, and was responsible to the company for the conduct of business of the company, as well as the company, liable for the offence."*

179. Therefore, Noticees 2, 3, 4 and 5 are vicariously liable for the accounting irregularities and disclosure violations of BGL. Thus, I find that Noticees 2, 3, 4 & 5 have violated Section 12A(b)&(c) of the SEBI Act, Regulations 3(c), 3(d), 4(1), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

(5) Whether issuance of directions and/ or penalty under sections 11(1), 11(4), 11(4A), 11B(1) and 11B(2) of the SEBI Act are warranted?

180. I note that the SCN had *inter alia* called upon the Noticees to show cause as to why appropriate penalty should not be imposed upon them under section 15A(b), 15A(c), 15HA and 15HB of the SEBI Act and section 12A(2) read with section 23H of SCRA for the violation of provisions of SEBI Act, LODR Regulations, PFUTP Regulations, PIT

Regulations and Listing agreement read with provisions of SCRA, 1956. The relevant extracts of sections 15A(b), 15A(c), 15HA, 15HB of SEBI Act and 23H of SCRA is as under:

SEBI Act

Sec 15A. If any person, who is required under this Act or any rules or regulations made thereunder, —

(b)to file any return or furnish any information, books or other documents within the time specified therefor in the regulations, fails to file return or furnish the same within the time specified therefor in the regulations or who furnishes or files false, incorrect or incomplete information, return, report, books or other documents, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

(c)to maintain books of account or records, fails to maintain the same, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

Sec 15HA.Penalty for fraudulent and unfair trade practices.

If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

Sec 15HB.Penalty for contravention where no separate penalty has been provided.

Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

SCRA

23H. Whoever fails to comply with any provision of this Act, the rules or articles or bye-laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

181. On the basis of the discussion in the foregoing paragraphs, I note that non-compliance with accounting standards by BGL has resulted in egregious misrepresentation of its financial statements for the FYs 2014-15 to 2019-20. There was a significant delay in the recognition of material adverse impairment of assets. Further, accounting irregularities led to artificial inflation of headline profits to the extent of INR 1,280.06 crore (INR 860.30 crore in FY 2019-20 and INR 411.76 Crore in FY 2018-19) during FYs 2018-19 and 2019-20. Noticees

2 to 5 were Executive Directors, Audit Committee members and KMP during different periods. Therefore, they were, at the relevant points in time, responsible for the day-to-day affairs and management of BGL and were involved in the approval of the misrepresented financial statements. As has been concluded earlier in this Order, these noticees were both directly liable for violations of securities laws and vicariously liable for the violations of BGL.

182. The various accounting standards violations and disclosure violations including incorrect shareholding pattern which took place between FYs 2014-15 and 2019-20 enabled the promoters of BGL to offload their shareholding from 40.45% in March 2014 to 3.51% in June 2022. Noticees 2 & 3 were also part of the promoter group, which offloaded their shareholding during this period. I note that Interim Order cum SCN records that *“the quantification of unlawful gains made by the promoter group could not be made on account of non-submission of information sought from the Company.”* In fact, the Interim Order at para 177(i) clearly directed the Noticees to *“submit details regarding the date of purported pledges, off-market transfers, copies of loans and pledge agreements, if any, DIS slips, prices at which shares were disposed of and all other relevant documents/ details to SEBI within 15 days from the date of this Order.”* This direction has not been complied with by all the noticees thereby hindering the computation of actual illegal gains. By being a part of this fraudulent scheme of manipulation of financial statements and disclosure violations, Noticees 1 to 5 have *prima facie* enabled the promoter group to make illegal gains. Accordingly, these Noticees have violated provisions of PFUTP Regulations as well.

183. It is well established through various decisions of the Hon’ble Supreme Court, Hon’ble High Courts and Hon’ble SAT that the scope of the power under Section 11B of the SEBI Act is wide, under which directions can be passed to order refunds/ bring back monies/ disgorge illegal gains made by any person in violation of securities law. I note that investigation in the matter has concluded that the Noticees were involved in perpetrating a fraudulent scheme by manipulation of financial statements and other LODR violations to enable the promoter group of BGL to offload their shareholding. Though the Interim Order cum SCN explicitly alleges that promoters of BGL were beneficiaries of this fraudulent scheme, the actual gains they made could not be quantified for the reasons elaborated above. I am of the view that there is a need to quantify such receipts/ gains and disgorge ill-gotten gains obtained by perpetrating the fraudulent scheme established in this Order. In compliance

with principles of natural justice, noticees who have made such gains must be granted an opportunity to show cause why they should not be disgorged, before any order of disgorgement is passed.

184. I note that section 15J of the SEBI Act provide for factors which are required to be considered for adjudging quantum of penalty. Section 15J of the SEBI Act reads as follows:

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“Factors to be taken into account while adjudging quantum of penalty.

15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.”

185. As mentioned earlier, due to non-cooperation of the Company, no computation of actual illegal gains has been made. Further, I find that the material available on record does not indicate the amount of specific loss caused to investors as a result of the acts of the Noticees or the repetitive nature of such violation.

186. The misrepresented financial statements with inflated profits, along with disclosure violations led to investors not having the true, fair, and timely assessment of financial position of the company. Permitting this situation to continue would undoubtedly harm the interest of the investors. Therefore, in addition to penal or deterrent measure, it is necessary to pass remedial directions as well to correct the distorted picture thereby enabling investors to take an informed decision about their investments.

187. Considering the long period during which the misstatements continued and the persistent non-cooperation with SEBI's investigation and the multifarious violations of law perpetrated by the Noticees, I am of the view that stringent remedial and penal directions are warranted in this case. Since the fraudulent scheme was evidently designed to benefit the promoter directors who offloaded a large portion of their shares, and taking into account their roles

as CMD and Whole Time Directors in the listed company, I am of the view that Noticees 2 and 3 deserve a more stringent penalty and directions of restraint, in comparison to the other noticees. Next, Noticee No. 5 functioned as an employee and CFO of the company for the entire impugned period of six years, and was responsible for preparing the financials during this period. Next, in the case of Noticee 4, facts bear out that he was an ED and Audit Committee member for only 3 years during the impugned period and the violations arising from incorrect impairment of assets post the GDPR notification all took place after his tenure as ED/ Audit committee member. Nonetheless, he bears responsibility for other accounting standard irregularities/ LODR violations elaborated in this Order. Finally, in my view, Noticee No 1 (BGL) deserves comparatively lesser penalty and period of restraint for the reason that it is now largely owned by public shareholders who have borne the brunt of the fraud perpetrated by the promoter directors. .

F. COMPLIANCE WITH DIRECTIONS OF INTERIM ORDER CUM SCN

188. *Vide* the Interim Order cum SCN, certain directions were issued to all the Noticees. In this regard, I note that BGL has not complied with any of the directions except for directions at para 177(c), (d) and (g). Also, while BGL has claimed that it had complied with the following direction, I find that BGL has failed to do so for the reasons recorded in the Table below.

Table no. 24

Paragraph in Interim Order cum SCN	Direction in the Interim Order cum SCN	Compliance status
177(e)	<i>Noticee 1 (i.e. BGL) shall disseminate the standalone financial statements of each of its subsidiaries on its website, for the period between FY 2014-15 and FY 2021-22, as required under Regulation 46 of SEBI (LODR) Regulations, 2015, within fifteen days from the date of this order.</i>	BGL vide its reply dated October 14, 2023 has submitted that they have complied with this. In this regard, it is noted that the website https://www.brightcomgroup.com/financials-subsidiaries/ , reads as follows: “The audit reports for the top four subsidiaries, which make up a majority of the consolidated business, have been made available. However, the reports for the smaller subsidiaries, which together contribute approximately 25% of the consolidated revenues, are still being processed for translations and other considerations. They will be uploaded in the coming few weeks.”

		Accordingly, I find that BGL has not complied with this direction.
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189. As regards the directions issued at paragraph 177(i) of the Interim Order cum SCN issued to the Noticees, I note that except for Noticee 5, other Noticees have failed to comply with the said direction.

G. DIRECTIONS

190. In view of the aforesaid findings and having regard to the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 11(1), 11(4), 11(4A), 11B(1) and 11B(2) read with Section 15A(b), 15A(c), 15HA and 15HB of the SEBI Act, and proceedings under Section 12A(2) of SCRA read with Section 23H of SCRA direct as under:

(a) Noticees 1 to 5 are restrained from accessing the securities market and prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for the periods listed below, from the date of coming into force of this Order:

Noticee No.	Noticee name	Period of restraint
1.	Brightcom Group Ltd.	1 year
2.	Mr. M. Suresh Kumar Reddy	5 years
3.	Mr. Vijay Kancharla	5 years
4.	Mr. Yerradoddi Ramesh Reddy	1 year
5.	Mr. Y. Srinivasa Rao	1 year

(b) Noticees 2 to 5 are restrained from being associated with the securities market, in any manner whatsoever, including as a director or Key Managerial Personnel in a listed company or an intermediary registered with SEBI or a public company which intends to raise money from public in the securities market, for the periods listed below, from the date of coming into force of this Order;

Noticee No.	Noticee name	Period of restraint
2.	Mr. M. Suresh Kumar Reddy	5 years
3.	Mr. Vijay Kancharla	5 years
4.	Mr. Yerradoddi Ramesh Reddy	1 year
5.	Mr. Y. Srinivasa Rao	1 year

(c) Noticee 1 (i.e. BGL) shall file a statement of impact of all the non-compliances detailed in this Order, within three months from the date of the Order with the stock exchanges. BGL shall ensure that the said statement of impact of non-compliances is in the format specified in SEBI Circular no. CIR/CFD/CMD/56/2016 dated May 27, 2016 (BGL may use the term “non-compliances” instead of the term “audit qualification” for this purpose). BGL shall further ensure that the said statement of impact of non-compliances is certified by a peer-reviewed Chartered Accountant, who has audited at least one company forming part of NIFTY 100 or BSE 100 indices during the past three years.

(d) Noticee 1 (i.e. BGL) shall disseminate the standalone financial statements of each of its subsidiaries on its website, for the period between FY 2014-15 and FY 2021-22, as required under Regulation 46 of SEBI (LODR) Regulations, 2015, within fifteen days from the date of this Order.

(e) Noticees 1 to 5 are hereby imposed with the penalties as specified hereunder:

Noticee No.	Noticee name	Penalty amount (in INR.)
1.	Brightcom Group Ltd.	1 crore
2.	Mr. M. Suresh Kumar Reddy	15 crore
3.	Mr. Vijay Kancharla	15 crore
4.	Mr. Yerradoddi Ramesh Reddy	1 crore
5.	Mr. Y. Srinivasa Rao	2 crore

(f) Noticees 1 to 5 shall pay the respective penalty imposed on them within a period of forty-five (45) days from the date of receipt of this Order. In case of failure to do so, simple interest at the rate of 12% per annum shall be applicable from the expiry of the said 45 days till the date of actual payment;

(g) Noticees 1 to 5 shall pay the monetary penalty by online payment through following path on the SEBI website: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairman / Members → Click on PAY NOW. In case of any difficulties in payment of penalties, the Noticees may contact the support at portalhelp@sebi.gov.in.

(h) Noticees 1 to 5 shall forward details of the online payment made in compliance with the directions contained in this Order to the Division Chief, CFID, SEBI, SEBI Bhavan II, Plot no. C -7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai-400 051" and also to e-mail id: tad@sebi.gov.in in the format as given in table below:

Case Name	
Name of the Payee	
Date of Payment	
Amount Paid	
Transaction No.	
Bank Details in which payment is made	
Payment is made for:	Penalty

(i) This Order shall come into force with immediate effect.

(j) As discussed in paragraph 183 above, SEBI shall determine the quantum of illegal gains/ benefit made by way of the fraudulent scheme as established in this Order and action may be initiated in accordance with law.

(k) A copy of this Order shall be served on the Noticees. A copy of this Order shall be forwarded to the Stock Exchanges, Depositories, Registrar and Share Transfer Agents and Banks to ensure necessary compliance.

Sd/-

DATE: FEBRUARY 06, 2025

PLACE: MUMBAI

ANANTH NARAYAN G.

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA