



**BEFORE THE ADJUDICATING OFFICER  
SECURITIES AND EXCHANGE BOARD OF INDIA  
[ADJUDICATION ORDER NO. Order/SM/BK/2025-26/32239]**

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**UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT,  
1992 READ WITH RULE 5 OF THE SEBI (PROCEDURE FOR HOLDING INQUIRY  
AND IMPOSING PENALTIES) RULES, 1995**

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**In respect of:**

**Nagarjuna Fertilizers and Chemicals Limited**

**PAN: AADCK1533E**

**In the matter of Nagarjuna Fertilizers and Chemicals Limited**

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**A. BACKGROUND**

1. Securities and Exchange Board of India (hereinafter also referred as 'SEBI') had initiated Adjudication Proceedings under Section 15 I of the SEBI Act, 1992 (hereinafter also referred as 'SEBI Act') in respect of Nagarjuna Fertilizers and Chemicals Limited (hereinafter also referred to as '**NFCL**' / '**Company**' / '**Noticee**' / '**You**') in the subject matter for the alleged violations of following provisions:
  - 1.1 Under Section 15HB of the SEBI Act, 1992 (hereinafter also referred to as 'SEBI Act') for the alleged violations of the following provisions:
    - 1.1.1 Regulation 33(1)(c) & Regulation 48 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as '**LODR Regulations**') read with Regulation 4(1)(a), (b) and (h) of LODR Regulations.



1.2 Under Section 15A (b) of SEBI Act, for the alleged violations of the following provisions:

1.2.1 Regulation 30(3) read with Regulation 30(4)(i)(c) read with Sub-para 8 of Para B of Part A of Schedule III of LODR Regulations, 2015 read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023, read with Regulation 4(1)(h) of LODR Regulations, 2015.

## **B. APPOINTMENT OF ADJUDICATING OFFICER**

2. Whereas, the Competent Authority was prima facie of the view that there were sufficient grounds to adjudicate upon the alleged violation by the Noticee, as stated above and therefore, in exercise of the powers conferred under Section 15-I of the SEBI Act, 1992 and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 read with Section 19 of the SEBI Act, 1992, the Competent Authority appointed Shri Amar Navlani, General Manager, SEBI as the Adjudicating Officer (AO) vide communique dated July 15, 2025 (erstwhile AO) to inquire into and adjudge under Section HB and Section 15A(b) of the SEBI Act, 1992 for the alleged violation by the Noticee. Subsequent to the transfer of the erstwhile AO, vide communique dated September 19, 2025, the undersigned has been appointed as the Adjudicating Officer.

## **C. SHOW CAUSE NOTICE, REPLY AND HEARING**

3. Show Cause Notice No. SEBI/EAD3/P/OW/2025/ 27021/1 dated October 17, 2025 (hereinafter referred to as 'SCN'), was served upon the Noticee by the erstwhile AO in terms of Rule 4 (1) of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as 'Adjudication Rules'), to show cause as to why an inquiry should not be held against the Noticee in terms of Rule 4(1) of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 read with Section 15-I of the SEBI Act, 1992 and why penalty be not imposed under Section 15HB and Section 15A(b) of SEBI Act, 1992 for the aforesaid alleged violations.



4. The key allegations in respect of the Noticee inter alia brought out in the SCN are as under:

“ ...

3. SEBI was in receipt of a complaint, vide letter dated June 06, 2024 from M/s Pipeline Infrastructure Limited (**'PIL/Complainant'**) against the Company. The complaint had, inter alia, alleged the following:
  - i. The Company had deliberately failed to disclose, in the Annual Report for F. Y. 2023-24, the details of the Arbitration Award dated January 02, 2023 which was passed in favour of PIL by the Arbitrator. The said Award directed the Company to pay a sum of Rs. 19,26,63,408 with an interest @ 24% p.a. from the date of filing of the Statement of Claim (i.e. November 19, 2019) till the date of the Award and further directed payment of Rs. 1,00,00,000 towards the cost of Arbitration.
  - ii. As on the date of award, the amount along with interest payable stood at Rs. 41 crores. Even though the Company had challenged the said award before the High Court of Bombay, there was no order of the Court staying the operation of the award.
  - iii. Further, PIL had moved execution proceedings against the assets of the Company for realization of its dues under the Arbitration Award.
4. In view of the above complaint, SEBI examined the matter to ascertain if the Company had violated disclosure requirements in terms of SEBI (Listing Obligations and Disclosure Requirements), 2015 (**"LODR Regulations"**) as regards the event of receipt of Arbitration Award dated January 02, 2023, passed in favour of PIL, and the subsequent developments in the proceedings including the appeal petition filed by the Company before the Hon'ble Bombay High Court on April 03, 2023 against the Arbitration Award.
5. Accordingly, upon receipt of the complaint, the matter was taken up with National Stock Exchange (NSE), vide email dated July 09, 2024, advising NSE to examine the complaint and submit their comments along with supporting documents.
6. Pursuant to the same, NSE, vide email dated July 22, 2024, submitted its Examination Report and vide an email dated July 24, 2024, submitted copies of correspondence with the Company along with documents submitted.



## **FINDINGS AND OBSERVATIONS OF SEBI PURSUANT TO EXAMINATION**

- 6.1.1. *On perusal of the Examination Report of NSE along with copies of correspondence with the Company together with documents submitted by the Company to NSE, the following was noted:*
- 6.1.1.1. *Nagarjuna Fertilizers and Chemicals Limited (NFCL) entered in to Gas Transportation Agreement (GTA) with Pipeline Infrastructure Limited (PIL) for transportation of gas on March 29, 2009.*
- 6.1.1.2. *PIL issued notice for dispute resolution in terms of clause 16.1 of the GTA. Subsequently, the statement of claim and statement of defence along with other pleadings were exchanged between the parties and on May 17, 2019, PIL invoked Arbitration as per Clause 16 of GTA.*
- 6.1.1.3. *On January 02, 2023, the Arbitration award was passed in favour of PIL. The said award directed that the Company should pay Rs. 19.27 crore with an interest @ 24% p.a. on the principal amount from the date of filing of the Statement of Claim i.e. November 19, 2019 till the date of the Award and also directed to pay Rs. 1 crore towards the cost of Arbitration.*
- 6.1.1.4. *On April 03, 2023, the Company filed an appeal petition u/s 34 of Arbitration and Conciliation Act, 1996 read with Commercial Court Act, 2015, against the Arbitration Award before the Hon'ble Bombay High Court.*
- 6.1.2. *For the aforementioned events at paras mentioned above, examination was conducted by NSE as regards determination of materiality of the said events considering provisions of LODR Regulations prevailing as on the date of occurrence of the events and also considering materiality criteria introduced post amendment in LODR Regulations effective from July 15, 2023.*
- 6.1.3. *Vide Email dated July 12, 2024, NSE inter-alia sought the following clarification from the Company with respect to the said Arbitration Award for determination of materiality of the event/information:*
- 6.1.3.1. *Materiality policy in force pre amendment of July 2023 along with the copy of the policy.*
- 6.1.3.2. *Whether the said event was material considering pre amendment? if no, provide explanation/justification that how the litigation was not a material event for the Company considering pre amendment of SEBI LODR 2015 (July 2023 amendment) and materiality policy of the Company (provide reference from policy) and also share materiality policy.*
- 6.1.3.3. *Sequence of event- from initiation of arbitration along with all updates in a sequential manner.*
- 6.1.4. *Vide Email dated July 12, 2024, the Company shared its materiality policy which was in force prior to July 2023 and stated the following:*



- 6.1.4.1. *The policy was adopted by the Board of Directors of the Company at their meeting held on February 08, 2019.*
- 6.1.4.2. *The Managing Director was authorized for determining the materiality of an event as per the policy.*
- 6.1.4.3. *The said event was not considered material by the Company. The policy on materiality provides the criteria for determining materiality of an event or information at Clause VI. Materiality is determined on a case to case basis depending on the facts and circumstances pertaining to the event, transaction based on the guidelines given in the policy.*
- 6.1.5. *In this regard, NSE observed that based on the pre-amendment materiality policy of the Company effective from February 08, 2019, there were no such specific criteria mentioned in the policy for calculation of the materiality and hence for pre-amendment, it is difficult to ascertain the materiality of the litigation.*
- 6.1.6. *In this regard, SEBI observed three major events which may warrant disclosure under Regulation 30 as under:*

<i>Sr. No.</i>	<i>Event/Information/Transaction</i>	<i>Date of Event</i>
1.	<i>Statement of Claim was filed by PIL</i>	<i>19.11.2019</i>
2.	<i>Arbitration Award passed by Sole Arbitrator</i>	<i>02.01.2023</i>
3.	<i>Appeal Petition filed by the Company u/s 34 of Arbitration and Conciliation Act, 1996 read with Commercial Court Act, 2015, against the Arbitration Award before the Hon'ble Bombay High Court</i>	<i>03.04.2023</i>

- 6.1.7. *The Policy on Disclosure of Material Events, effective from February 08, 2019 was perused and the following was observed:*

*Clause VI of the policy is reproduced as under:*

*“ ...*

**VI. CRITERIA FOR DETERMINING MATERIALITY OF EVENTS / INFORMATION**

***Materiality will be determined on a case to case basis depending upon the facts and circumstances pertaining to the event, transaction, and / or information. The Managing Director shall frame his opinion on a case to case basis, based on specific facts and circumstances relating to materiality of the event, transaction or information.***

*The event, transaction or information specified in Para A of Part A of Schedule III of the Regulations shall be disclosed to the Stock Exchanges without any application of guideline for materiality.*



*The events or information specified in Para B of Part A of Schedule III of the Regulations described in Annexure II, shall be disclosed based on the disclosure process described in the policy.*

*The Managing Director may consider the below inter alia guidelines for determining materiality of event, transaction or information. The event, transaction or information shall be considered as material if it inter alia meets any of the following criteria:*

**5) The consideration involved in the transaction as a percentage of the consolidated turnover, net worth or profit, as per last audited financial statements;**

*...*

- 6.1.8. *Considering sub-clause 5 of clause VI of the materiality policy of the Company, it was noted that even though the policy had a provision of materiality threshold based on a certain percentage of the consolidated turnover, net worth or profit, as per last audited financial statements, however, the same was not clearly defined in the materiality policy of the Company.*
- 6.1.9. *Further, Clause VI of the policy states that Materiality will be determined on a case to case basis depending upon the facts and circumstances pertaining to the event, transaction, and / or information. Also, the Managing Director shall frame his opinion on a case to case basis, based on specific facts and circumstances relating to materiality of the event, transaction or information.*
- 6.1.10. *The Managing Director must use certain objective criteria while deciding on materiality of an event. However, as seen from the policy, such objective criteria have not been clearly defined in the materiality policy of the Company.*
- 6.1.11. *Accordingly, when comments of the Company were sought by NSE, the Company vide email dated July 12, 2024, inter-alia, stated that the said event was not considered material by the Company.*
- 6.1.12. *However, on being asked to provide explanation/justification as to how the litigation was not a material event for the Company considering pre-amendment provisions of SEBI LODR Regulations and materiality policy of the Company, the Company gave a vague response and failed to provide proper rationale for its decision to not consider the event as a material event.*
- 6.1.13. *Further, NSE in its examination report also concluded that based on the pre-amendment policy of the Company, there were no such specific criteria mentioned in the policy for calculation of the materiality and hence for pre-amendment, it is difficult to ascertain the materiality of the litigation.*
- 6.1.14. *In light of the above, it was noted that the pre-amendment materiality policy of the Company was vague and unclear with respect to the materiality threshold to be applied on transactions and that the Company itself claimed, based on the opinion of its Managing Director, that the event was not considered material basis the facts and*



circumstances pertaining to the event. However, as stated above, proper rationale to support the decision was not provided by the Company.

- 6.1.15. Even if the contention of the Company as regards determination of materiality of the event, considering pre-amendment provisions of SEBI LODR Regulations and materiality policy of the Company, was considered, it is pertinent to note that Regulation 30 was amended with effect from July 15, 2023. The amended Regulation 30 clearly provided for the materiality thresholds to be applied for determination of whether an event or information is to be considered material and consequently required to be disclosed to the stock exchanges.

**Relevant provisions of Regulation 30 post amendment of SEBI (LODR) Regulations, 2015 vide SEBI (LODR) (Second Amendment) Regulations, 2023**

**Regulation 30(4)(i)(c) of LODR Regulations prescribed the following threshold for determination of materiality of events/information**

**c) the omission of an event or information, whose value or the expected impact in terms of value, exceeds the lower of the following:**

- 1) two percent of turnover, as per the last audited consolidated financial statements of the listed entity;
  - 2) two percent of net worth, as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative;
  - 3) five percent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed entity;
- b) In case where the criteria specified in sub-clauses (a), (b) and (c) is not applicable, an event or information may be treated as being material if in the opinion of the board of directors of the listed entity, the event or information is considered material:

**Provided that any continuing event or information which becomes material pursuant to notification of these amendment regulations shall be disclosed by the listed entity within thirty days from the date of coming into effect of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023.]**

- 6.1.16. NSE vide email dated July 09, 2024, inter-alia sought the following clarification from the Company with respect to the said Arbitration Award for determination of materiality of the event/information in accordance with post amended Regulation 30 of LODR Regulations:

- 6.1.16.1. Calculation of Materiality as per Regulation 30 (4)(i)(c) of SEBI LODR, 2015.
- 6.1.16.2. Whether said matter disclosed in the Annual Reports filed with the Exchange.



6.1.17. Vide Email dated July 10, 2024, the Company inter-alia stated the following:

6.1.17.1. Calculation of Materiality as per Regulation 30 (4)(i)(c) of SEBI LODR, 2015  
As per the Arbitration Award dated 02.01.2023, the Company is to pay Rs. 19,26,63,408/- and cost of Arbitration Rs. 1,00,00,000/- along with simple interest @24% on the principal amount from the date of reference to the Arbitration which is amounting to **Rs. 35.82 Crores as on March 31, 2023**.  
It was further stated that the amended Regulation 30(4) (i)(c) of LODR Regulations, 2015 is applicable with effect from July 15, 2023 and the calculation of materiality as per the aforesaid Regulation, post amendment was provided as below:

a. Basis the Turnover as on March 31, 2023.

Sr.No.	Turnover as on March 31, 2023	Calculation of Criteria (2% of Turnover)
1.	Rs. 5,642.20 Crores	Rs. 112.84 Crores

b. Basis the Net worth as on March 31, 2023.

Sr.No.	Net worth as on March 31, 2023	Calculation of Criteria (2% of Turnover)
1.	Rs. (2,588.31) Crores.	NA As the Net Worth is Negative

c. Basis the Average Absolute profit / loss after tax for last three years.

Year	profit / loss after tax as on March 31, 2023	Calculation of Criteria (5% of Average Absolute profit / loss after tax for last three years)
2021	Rs. (615.92) Crores	Rs. 36.69 Crores
2022	Rs. (688.15) Crores	
2022	Rs. (897.32) Crores	
<b>Total</b>	Rs. (2201.39) Crores	
<b>Average</b>	Rs. (733.80) Crores	

Note: For the F.Y. 2023-24, loss is Rs.1282.32 Crores.

6.1.18. In this regard, NSE reviewed the said litigation event considering the materiality threshold post the new amendment and on perusal of the documents/details received from the Company and the materiality working as on August 14, 2023, it was understood that the **lower of the criteria as mentioned in the below table comes to apprx. Rs. 36.42 crs and the said amount payable under the said litigation event as on August 14, 2023, comes to apprx. Rs. 37.52 crore.**

**NSE Calculation as per Reg. 30 (4) (1) (c) of the SEBI LODR 2015**

Turnover as on March 31, 2023	Calculation of Criteria (2% of Turnover)
Rs. 5,642.20 Crores	Rs. 112.84 Crores



Year.	Profit / loss after tax	Calculation of Criteria (5% of Average Absolute profit / loss after tax for last three years)
2021	Rs. 615.33 Crores	Rs. 36.42 Crores
2022	Rs. 669.90 Crores	
2023	Rs. 900.09 Crores	
Total	Rs. 2185.32 Crores	
Average	Rs. 728.44 Crores	

**Calculation for Liability as on August 14, 2023:**

Particulars	Number of Days	Interest Amount
from 19.11.2019 till Year end	41	51,93,994
Year 2020	366	4,62,39,218
Year 2021	365	4,62,39,218
Year 2022	365	4,62,39,218
Year 2023 till 14.08.2023	226	2,86,30,310
<b>Total Interest (A)</b>		<b>17,25,41,958</b>
<b>Principal Amount (B)</b>		<b>19,26,63,408</b>
<b>Arbitration Award Cost (C)</b>		<b>1,00,00,000</b>
<b>Total Outstanding (A+B+C)</b>		<b>37,52,05,366</b>

The basis of Principal Amount and the simple Interest charged @ 24 % is being taken from the Award Copy.

- 6.1.19. Accordingly, it was observed by NSE that the disclosure under sub-para 8 of Para B of Part A of Schedule III of SEBI LODR Regulations with reference to the new amendment effective from July 15, 2023 read with SEBI circular dated July 11, 2023, has not been made by the Company and accordingly, the Company had violated the aforesaid provision of the LODR Regulations.
- 6.1.20. In this regard, SEBI inter alia observed that vide LODR (Second Amendment) Regulations, 2023, a minimum quantitative threshold was inserted in clause (i)(c) of regulation 30(4) of LODR Regulations, in order to make criteria for determining 'materiality' of events more objective and non-discretionary. These amendments were being made effective from July 15, 2023.
- 6.1.21. Further, if any continuing event or information becomes material event or information by exceeding the above mentioned materiality threshold pursuant to notification of the proposed amendments, then the same shall be disclosed by the listed entity within thirty days from the date of coming into effect of these amendments.
- 6.1.22. SEBI observed that two major events which may warrant disclosure in light of the amended Regulation 30 are as under:

Sr. No.	Event/Information/Transaction	Date of Event
1.	Arbitration Award passed by Sole Arbitrator	02.01.2023
2.	Appeal Petition filed by the Company u/s 34 of Arbitration and Conciliation Act, 1996 read with Commercial Court Act, 2015, against the Arbitration Award before the Hon'ble Bombay High Court	03.04.2023



6.1.23. In this backdrop, NSE vide an email dated July 22, 2024, had submitted that as per amended threshold criteria under Regulation 30(4)(i)(c), the threshold amount stands at 36.42 crores and the amount payable under the said litigation as on August 14, 2023, comes to approx. Rs 37.52 crores.

6.1.24. The proviso under Regulation 30(4)(i) states the following:

*Provided that any continuing event or information which becomes material pursuant to notification of these amendment regulations shall be disclosed by the listed entity within thirty days from the date of coming into effect of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023.*

6.1.25. Further, it was noted that the amended threshold criteria under Regulation 30(4)(i)(c) was applicable with effect from July 15, 2023 and thus liability as on July 15, 2023 was required to be calculated.

6.1.26. Accordingly, if the liability of the entity as on July 15, 2023 exceeds the materiality threshold, the event would require disclosure within 30 days from July 15, 2023 i.e. within August 14, 2023.

#### **Calculation for Liability as on July 15, 2023**

<b>Particulars</b>	<b>Number of Days</b>	<b>Interest Amount</b>
from 19.11.2019 till Year end	41	51,93,994
Year 2020	366	4,62,39,218
Year 2021	365	4,62,39,218
Year 2022	365	4,62,39,218
Year 2023 till 15.07.2023	196	2,48,29,827
<b>Total Interest (A)</b>		<b>16,87,41,475</b>
<b>Principal Amount (B)</b>		<b>19,26,63,408</b>
<b>Arbitration Award Cost (C)</b>		<b>1,00,00,000</b>
<b>Total Outstanding (A+B+C)</b>		<b>37,14,04,883</b>

The basis of Principal Amount and the simple Interest charged @ 24 % is being taken from the Award Copy and is in line with the calculation done by the exchange.

6.1.27. As per the above calculation, the amount payable under the said litigation as on July 15, 2023, comes to approx. Rs 37.14 crores which breaches the materiality threshold of Rs. 36.42 cr.

6.1.28. Accordingly, pursuant to such amendment in Regulation 30(4)(i), the instant event of receipt of arbitration award by the Company has become a material event and thereby, disclosure under Regulation 30 was triggered for the Company on July 15, 2023 and the same was required to be disclosed by August 14, 2023.

6.1.29. Since the receipt of arbitration award by the Company has become material, the subsequent event of Appeal Petition filed by the Company u/s 34 of Arbitration and



Conciliation Act, 1996 read with Commercial Court Act, 2015, against the Arbitration Award before the Hon'ble Bombay High Court has also become material in terms of Sub-para 8 of Para B of Part A of Schedule III of LODR Regulations, 2015 read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023.

**Relevant Regulatory provision**

7. **Litigation(s) / dispute(s) / regulatory action(s) with impact:** The listed entity shall notify the stock exchange(s) upon it or its key management personnel or its promoter or ultimate person in control becoming party to any litigation, assessment, adjudication, arbitration or dispute in conciliation proceedings or upon institution of any litigation, assessment, adjudication, arbitration or dispute including any ad-interim or interim orders passed against or in favour of the listed entity, the outcome of which can reasonably be expected to have an impact.

**8.1. At the time of becoming the party:**

- a) brief details of litigation viz. name(s) of the opposing party, court/ tribunal/agency where litigation is filed, brief details of dispute/litigation;
- b) expected financial implications, if any, due to compensation, penalty etc;
- c) quantum of claims, if any;

**8.2. Regularly till the litigation is concluded or dispute is resolved:**

- a) the details of any change in the status and / or any development in relation to such proceedings;
- b) in the case of litigation against key management personnel or its promoter or ultimate person in control, regularly provide details of any change in the status and / or any development in relation to such proceedings;
- c) in the event of settlement of the proceedings, details of such settlement including - terms of the settlement, compensation/penalty paid (if any) and impact of such settlement on the financial position of the listed entity.

- 7.1.1. In view of the above, the following disclosures should have been made by the Company to the stock exchange:

Sr. No.	Event/Information/Transaction	Date of Event	Due Date of Disclosure
1.	Arbitration Award passed by Sole Arbitrator	02.01.2023	14.08.2023
2.	Appeal Petition filed by the Company u/s 34 of Arbitration and Conciliation Act, 1996 read with Commercial Court Act, 2015, against the Arbitration Award before the Hon'ble Bombay High Court	03.04.2023	14.08.2023

- 7.1.2. However, no such disclosures have been made by the Company to the stock exchange.

**In view thereof, it is alleged that the Company has violated the provisions of Regulation 30(3) read with Regulation 30(4)(i)(c) read with Sub-para 8 of Para B of Part A of Schedule III of LODR Regulations, 2015 read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11,**



*2023, read with Regulation 4(1)(h) of LODR Regulations, 2015 by failing to disclose material events/information to exchanges as specified in the foregoing.*

**7.2. Non-compliance with Para 86 of IND AS 37 pertaining to disclosure of the nature of obligation and including estimate of its financial effect for each class of contingent liabilities as disclosed in its annual report/financial statements for the Financial Year ended March 31, 2023 and March 31, 2024**

- 7.2.1. *It was observed that NSE vide email dated July 09, 2024, inter-alia sought clarification from the Company as to whether the said matter has been disclosed in the Annual Reports filed with the Exchange.*
- 7.2.2. *Vide email dated July 18, 2024, addressed to NSE, the Company had stated that it had disclosed the said litigation event since inception in their Annual report FY 2021-22 under head "Matters under Arbitration, also the Company has made provision in Contingent Liabilities in the Financial Statements for the year ended March 31, 2023, and March 31, 2024.*
- 7.2.3. *In this regard, the annual financial statements for FY 2022-23 & FY 2022-24 were perused by NSE. Further, on verification of the annual reports for FY 2021-22 & 2022-23 and financials of 2023-24, it was observed that no such separate disclosure was made for the Arbitration Proceedings of Pipeline Infrastructure Limited.*
- 7.2.4. *NSE vide email dated July 24, 2024, stated that by failing to disclose the concerned Arbitration Award in the Annual Report of the Company, the Company has failed to adhere to Indian Accounting Standard 37 (IND-AS 37) while preparing its financials which specifies that an entity shall disclose brief description of the nature of obligation.*
- 7.2.5. *Accordingly, vide email dated March 26, 2025, comments were sought from NSE with respect to violations of LODR Regulations, 2015 by the Company on account of failure to adhere to IND-AS 37 while preparing its financials.*
- 7.2.6. *NSE vide email dated March 26, 2025, has stated that the Company has violated the following provisions of LODR Regulations, 2015:*

**Regulation 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.*

**Regulation. 33(1)(c):**



*The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India.*

**Regulation 48:**

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

- 7.2.7. *In this regard, it was observed by SEBI that the Company in notes to accounts no 32 viz "Contingent Liabilities and Commitments", has disclosed the consolidated figure under sub head "matters under arbitration" amounting to Rs 209.82 crores. (page 108-109 of annual report). Further, the Company has not provided any specific or separate mention regarding the said arbitration award granted in favour of PIL in the aforementioned consolidated figure of Rs 209.82 crores, nor has it been addressed in the explanation accompanying the said Note 32 in the annual report of FY 2022-23.*
- 7.2.8. *Further upon perusal of the annual report for FY 2023-24, it was noted that Company in the notes to accounts no 32, has disclosed the consolidated figure under sub head "matters under arbitration" amounting to Rs 13.25 crores for year ended on March 31, 2024. The Company has disclosed amount of Rs 621.81 crores under the sub head "Other claims against the group". (refer page 105-106 of annual report for FY 2023-24). Further, the Company has not provided any specific or separate mention regarding the said arbitration award granted in favour of PIL in the aforementioned consolidated figure of Rs 621.81 crores, nor has it been addressed in the explanation accompanying the said Note 32 in the annual report of FY 2023-24*
- 7.2.9. *It is to be noted that Para 86 of IND AS 37, "Provisions, Contingent Liabilities and Contingent Assets," states the following:*

*Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a **brief description of the nature of the contingent liability** and, where practicable:*

- (a) **an estimate of its financial effect**, measured under paragraphs 36–52;*  
*(b) **an indication of the uncertainties relating to the amount or timing of any outflow**; and*  
*(c) the possibility of any reimbursement.*

- 7.2.10. *However, it was observed that the Company has not made any separate disclosure in the notes to accounts pertaining to arbitration award passed in favour of Pipeline Infrastructure Limited and consequent appeal petition filed by the Company against the Arbitration Award before the Hon'ble Bombay High Court.*
- 7.2.11. *Further, Regulation 33(1)(c) of LODR Regulations states that the standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India.*
- 7.2.12. *Also, Regulation 48 of LODR Regulations states that the listed entity shall comply with all the applicable and notified Accounting Standards from time to time.*
- 7.2.13. *Further, NSE vide an email dated July 24, 2024 had also opined that by failing to disclose details of the concerned Arbitration Award in the Annual Report of the*



*Company, the Company had failed to adhere to Indian Accounting Standard 37 (IND-AS 37) while preparing its financials.*

- 7.2.14. Thus, in view of the above, the Company, on account of failure to comply with reporting requirement as per Para 86 of IND-AS 37 i.e. separate disclosure of the nature of obligation including estimate of its financial effect as regards arbitration award passed in favour of Pipeline Infrastructure Limited, has consequentially violated Regulation 33(1)(c) & Regulation 48 of LODR Regulations read with Regulation 4(1)(a), (b) and (h) of LODR Regulations, 2015.

***In view thereof, it is alleged that Noticee has violated Regulation 30(3) read with Regulation 30(4)(i)(c) read with Sub-para 8 of Para B of Part A of Schedule III of LODR Regulations, 2015 read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023, read with Regulation 4(1)(h) of LODR Regulations, 2015.***

...

5. The said SCN was served upon the Noticees via SPAD and through email. The Noticee acknowledged the receipt of the SCN through email dated October 30, 2025 requesting an extension of thirty days to file a reply to the SCN. The Noticee was granted time till November 20, 2025 to file their reply to the SCN. However, vide email dated November 19, 2025, Noticee again sought additional time of seven days to submit their reply to the SCN. Considering the request, Noticee was granted time till December 01, 2025 to submit their reply.
6. Thereafter, in response to the SCN, Noticee filed reply vide letter dated December 02, 2025. The key submissions made by the Noticee as replies to the SCN are as under:

“ ...

1. Allegation 1 – Non-Disclosure of Arbitration Award dated January 2, 2023 (PIL vs. NFCL) and Related Developments:

- 1.1. Background of the Arbitration: An arbitral award was passed on January 02, 2023 in favor of Pipeline Infrastructure Ltd. (PIL) for an amount of Rs. 19,26,63,408 (approximately Rs. 19.27 crore) with interest at 24% per annum from November 19, 2019 (the date of claim) until the date of award, plus Rs. 1 crore towards arbitration costs. As on 31st march, 2023, the total amount with accrued interest was about Rs. 35.82 Crores. NFCL immediately took legal action by challenging this award under Section 34 of the Arbitration and Conciliation Act, filing an appeal



before the Hon'ble Bombay High Court on April 03, 2023. It is emphasized that this legal challenge was admitted by the Court and is presently sub judice. While PIL initiated execution proceedings in the interim, NFCL has been actively seeking a stay on enforcement and pursuing its remedies on the merits of the case.

- 1.2. *Rationale for Non-Disclosure as a "Material Event":* At the time the arbitration award issued in January 2023, NFCL assessed its disclosure obligations under the prevailing SEBI (LODR) Regulations and the Company's Policy for Determination of Materiality of Events. Regulation 30(3) of LODR requires disclosure of events or information specified in Para B of Part A of Schedule III "based on application of the guidelines for materiality". The relevant category is "pendency of any litigation or dispute or the outcome thereof which may have an impact on the listed entity". Prior to the mid-2023 amendments, no bright-line quantitative thresholds were specified in the regulation – it was left to the listed entity to determine materiality based on qualitative judgment and its internal materiality policy. In line with this, NFCL's Board-approved Materiality Policy (prior to the 2023 amendment) set certain benchmarks (quantitative thresholds and qualitative criteria) to define a "material" event or information.
  - *Quantitative Assessment:* In absolute terms, the award amount (Rs. 35.82 crores as of 31 March, 2023) was evaluated against the Company's financial metrics. In this context, Rs. 36 crores constituted a single-digit percentage of NFCL's annual turnover and an even smaller fraction of total assets. For example, as per the latest audited financials at that time, the aggregate turnover and assets of the Company were in the order of thousands of crores of rupees, making the award amount relatively modest in impact. Even vis-à-vis net worth, while significant, Rs. 35.82 crores was not so large as to jeopardize the Company's financial stability. Under our pre-amendment materiality policy, such an event would typically be considered material for exchange disclosure only if the amount exceeded a higher threshold (for instance, a fixed sum or a percentage of net worth/turnover that is larger than this claim) or if it significantly altered the Company's earnings prospects. In management's judgment, this award did not meet those thresholds and therefore the same is not considered material event or information for specific disclosure.
  - *Qualitative Assessment:* The Company also considered qualitative factors: whether this development would substantially affect NFCL's operations, reputation, or investor decision-making. Since the award was being vigorously contested and no actual outflow had occurred, we believed that the "expected impact" of the event on the Company was limited. Importantly, the award had not attained finality. This approach was taken in good faith, with no intent to conceal information, but rather to ensure that disclosures to the market were accurate and not premature.
- 1.3. *Ongoing Status and Investor Knowledge:* NFCL respectfully submits that the arbitration award is being contested before the Hon'ble Bombay High Court and hence not final, pending adjudication and deemed contingent and disclosed as part of the Financial Statements under the head of "Matters under Arbitration" since March, 2023. We assure the Hon'ble Adjudicating Officer that the Company has been acting diligently to protect the interest of the shareholders.
2. *Allegation 2 – Violation of Regulation 30(3), 30(4)(i)(c), Schedule III Part A Para B(8) of LODR, and Clause 8 of SEBI Circular dated July 11, 2023 (Material Event Disclosure Requirements):*
  - 2.1. *Compliance with Pre-Amendment Regulation 30:* The materiality policy and the regulations (in force during January 2023) took into account factors such as the event's quantitative impact on



key financial parameters (revenue, net worth, profit) and qualitative aspects (e.g. whether it significantly affects the Company's ability to continue operations, or represents a significant shift in strategy or obligations). As per the policy, a contingent liability was not automatically deemed material unless it was likely to result in a net cost of that magnitude to the Company as the same was under legal challenge. The management's view was that it is unlikely to result in an outflow in the foreseeable future and considered as Contingent Liability and hence no disclosure obligation was triggered. This was a bonafide prudence exercising discretion that the regulations, at that time, afforded to listed companies.

- 2.2. *Impact of July 2023 Regulatory Amendments: SEBI vide amendments to SEBI (LODR) Regulations, dated July 11, 2023 introduced explicit quantitative thresholds for materiality that "the omission of an event or information, whose value or the expected impact in terms of value, exceeds the lower of" (i) 2% of turnover, (ii) 2% of net worth, or (iii) 5% of 3-year average profit/loss (absolute). In addition, Para B(8) of Schedule III was reinforced, and Clause 8 of Annexure I of the July 2023 Circular mandates disclosure of "litigation(s) / dispute(s) / regulatory action(s) ... or any arbitration... the outcome of which can reasonably be expected to have an impact on the listed entity", with continuing updates on the status of such proceedings.*

*Compliance with Post-Amendment Requirements: The Company respectfully submits that the event or information was not material as cited at point 2.1, basis the same is under contest. The Company complied with Para B(8) of Schedule III cited above. Given our strong case that the award could be stayed or vacated on appeal, we did not reasonably expect the full amount to impact NFCL. In essence, we believed the situation remained a contingent one with a substantial possibility of no material outflow. This interpretation formed the basis of our judgment.*

*We wish to reiterate that the appeal of NFCL is still pending before Hon'ble Bombay High Court as on date.*

3. *Allegation 3 – Non-Disclosure of the Arbitration Matter in Annual Reports / Violation of IND-AS 37 (Provisions, Contingent Liabilities and Contingent Assets):*

- 3.1. *Disclosures in Annual Reports (FY 2022-23, 2023-24 & 2024-25): NFCL has disclosed arbitration and similar legal matters including PIL Arbitration in its Annual Reports, in aggregate form. In our reply to the stock exchange's query (NSE email dated July 18, 2024), we had clarified that the PIL litigation event was disclosed "since inception" under the head "Matters under Arbitration" in the Annual Report for FY 2022-23, 2023-24 and 2024-25 and that it was duly considered in the contingent liabilities:*

- FY 2021-22 Annual Report: In the Financial Statements for the year ending 31-03-2022, Note 32 ("Contingent Liabilities and Commitments") included a category "Matters under Arbitration" (as a subset of "Claims against the Company not acknowledged as debt"). This category encompassed all arbitration disputes involving the Company as of that date. Stakeholders reading the FY21-22 report would thus have been aware that certain matters were under arbitration.*
- FY 2022-23 Annual Report: By 31-03-2023, the award had been passed (Jan 2023) and was under challenge. In the Annual Report FY22-23, the financials again disclosed "Matters under arbitration" as a contingent liability. The total amount stated under this sub-head was Rs. 209.82 crore. This represented the aggregate of all outstanding arbitration claims against NFCL.*



Notably, the Rs. 209.82 crore did include the PIL award as part of that sum. In effect, the Financial Statements made investors aware that NFCL was subject to certain arbitration claims. Though the financials did not itemize each arbitration (by party or case) in that figure. Instead, were described in brief under Note 32.1 read with Note 32.3. The PIL matter was not being considered material was not separately detailed in the notes. This approach was an attempt to balance completeness with clarity – as listing every legal case individually is not practically possible.

- *FY 2023-24 Annual Report: In the next year, as matters evolved, we refined our disclosure categories. By 31-03-2024, pending arbitrations were substantially resolved or reclassified. In NFCL's case, the PIL award, after the arbitration was over and since it was under enforcement proceedings, was reclassified under "Other claims", disclosing the total exposure transparently. While no individual claim was named in the financial statements, the magnitude of contingent liabilities was clearly communicated, and the notes to accounts explained the nature of these claims. We submit that this method of disclosure is in line with standard accounting practices for contingent liabilities.*

3.2. *Compliance with IND-AS 37: The crux of this allegation is the suggestion that NFCL failed to separately disclose the PIL arbitration contingent liability, purportedly in breach of Indian Accounting Standard 37. We respectfully submit that Paragraph 86 of IND-AS 37 (which mirrors IAS 37) requires that "unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability a brief description of the nature of the contingent liability and, where practicable, an estimate of its financial effect, an indication of the uncertainties relating to the outflow, and the possibility of any reimbursement". NFCL has adhered to these requirements as follows:*

- *We identified classes of contingent liabilities in our financial statements – e.g., "Matters under arbitration", "Other claims", "Tax matters in appeal", etc. This classification itself is the "brief description of the nature" of the obligations. For instance, by labeling a portion of contingent liabilities as "Matters under arbitration", we conveyed that these liabilities arise from arbitration awards or proceedings. We did not omit this class; on the contrary, we highlighted it as a distinct category.*
- *We provided an estimate of the financial effect for each class by stating the rupee amount of contingent liabilities in that class. The figures were prominently disclosed in the notes, thus fulfilling the requirement to quantify the exposure.*
- *We also included narrative explanations of uncertainties in the notes. For the major arbitration cases listed in Note 32.1 of FY22-23, we described the status (e.g., awards challenged in court, management's view on their enforceability). Though, the PIL case was not explicitly described, the general uncertainties inherent under the class of "matters under arbitration" apply to it as well (i.e., outcome pending in court). In addition, Note 32.3 read with Note 32.1 of FY23-24 outlines the status of various legal proceedings and that management believes they will not adversely affect the company's financial position.*
- *Reimbursements: There were no anticipated reimbursements (insurance or indemnities) for the PIL matter, so this aspect is not applicable, and indeed IND-AS 37 only requires mentioning reimbursements if they exist.*



Furthermore, NFCL did exactly what IND-AS 37 prescribes – we disclosed contingent liabilities by class, described their nature, quantified the exposure, and indicated the existence of uncertainties (through status descriptions and the very fact that they are not recognized as actual liabilities). IND-AS 37 does not demand that each individual contingent liability be separately named and detailed, unless such detail is necessary for clarity. Generally, material individual contingencies are although highlighted at Note 32.1, in this perspective the PIL contingency, was not deemed material as to warrant separate description beyond the class aggregation.

4. Allegation 4 – Violation of LODR Regulation 4(1)(a), 4(1)(b), 4(1)(h) (Principles of Fair Disclosure and Corporate Governance), and Regulation 33(1)(c) & 48 (Financial Results Accuracy and Accounting Standards Compliance):

4.1. Adherence to Principles of Disclosure (Reg. 4(1)(a), (b), (h)): Regulation 4(1) of SEBI LODR outlines broad principles that listed entities must follow, including that information be prepared and disclosed in accordance with applicable standards of accounting and that prescribed accounting standards be implemented in letter and spirit taking into account stakeholders interests and that the entity shall make the required disclosures and fulfill the disclosure requirements. NFCL submits that it has upheld these principles. We have demonstrated in our responses above that: (a) our financial information was prepared as per applicable accounting standards (IND-AS), (b) those standards were indeed implemented faithfully (e.g., we disclosed contingencies as required, and (c) we have been guided by the interest of stakeholders in determining our disclosures. There was no intent to act contrary to transparent governance. In this regard, we wish to place on record that the Financial Statements have been approved by the Board of Directors basis the recommendation of the Audit Committee.

4.2. Compliance with Regulation 33(1)(c) and 48 (Accuracy of Financial Results and Accounting Standards): Regulation 33(1)(c) mandates that the Company's financial results (quarterly and annual) be prepared in accordance with "Generally Accepted Accounting Principles (GAAP) in India", which effectively means IND-AS for listed companies. Regulation 48 requires that we comply with all applicable accounting standards. As detailed in section 3, NFCL's financial statements for the relevant periods did comply with IND-AS 37 (as well as all other applicable standards). The contingent liability from the PIL arbitration was reflected inclusively in those statements under the head of "Matters under Arbitration". There has been no misstatement in any of the financial results filed with the exchanges – the contingent liability figures reported in our annual accounts were also considered in our interim results in terms of evaluation of any material changes. Moreover, the presence of the contingent liability was mentioned in the standalone and consolidated balance sheets (as part of the notes). No financial result filed under Reg. 33 omitted this information. We therefore submit that NFCL did not violate Reg. 33(1)(c) or Reg. 48. The suggestion that because a separate note wasn't provided for PIL, we failed to implement accounting standards, is unfounded. The accounting standards were indeed implemented "in letter and spirit", there was no falsification or withholding of financial data.

4.3. Further, it has been pointed out NFCL's omission to separately mention the PIL award in the Annual Report and opined that this was not in line with IND-AS 37. In this regard, we wish to clarify that IND-AS 37's requirements (as quoted in the SCN) talk about classes of obligations, not individual cases. We believe our treatment did not breach the standard – a view seemingly



*shared by our statutory auditors at the time of audit. The absence of a specific line or note regarding the PIL matter should not be construed as a violation. The Company had no intent to contravene Reg. 4 or Reg. 33 or 48. We have acted reasonably, and certainly without any mala fide. We further submit that the actions of the Company did not result in any alteration of event or information already available publicly nor has resulted in significant market reaction. We have been reporting the PIL liability as a contingent liability and consistently communicated through the annual reports about the total contingent liabilities. Therefore, the spirit of the law – which is to keep investors informed was honoured. We reiterate that NFCL remains committed to the highest standards of transparency and will continue to improve its disclosures as regulations evolve.*

**5. Conclusion and Request:**

*5.1. Summary of our Submissions: In light of the detailed submissions made, NFCL respectfully submits that the allegations in the SCN are not borne out by the facts and applicable law. The Company did not conceal the arbitration award; it was treated as a contingent liability and disclosed through that pris and rooted in a bona fide assessment of materiality and in compliance with the regulations. We have demonstrated that we complied with IND-AS 37 and thus with the financial reporting obligations of LODR.*

*5.2. NFCL's Commitment to Compliance: We want to assure the Hon'ble Adjudicating Officer that NFCL takes SEBI regulations with utmost seriousness. We have a track record of compliance and have always endeavoured to act in the best interest of our stakeholders. In response to the changing regulatory landscape, we have already strengthened our internal processes.*

...”

7. In the interest of natural justice, an opportunity of personal hearing was granted to the Noticee which was availed by its Authorized Representatives (ARs) Mr. Sreekanth Chanda and Mr. R M Deshpande physically on January 28, 2026. The ARs of the Noticee reiterated the submissions made in its reply dated December 02, 2025. Vide reply dated February 03, 2026, Noticee filed its additional submissions as under:

“ ...

**1. Facts of the Case:**

*a. After discovery of KGD6 gas, by Reliance Industries Limited (RIL), in Godavari basin Government of India has allotted the gas to various fertilizer units. NFCL has got allocation of 1.775 MMSCMD. The gas was supplied by RIL and the same was transported by RGTIL subsequently RGTIL taken over by Australian Company PIPL (PIL). The gas transportation agreement between NFCL and PIL, which has a clause of “Ship or Pay” in case of non-transportation as penalty or damages.*



- b. Due to financial constraints faced by NFCL, the account was declared NPA by the Banks and consequently RIL stopped supply of gas to NFCL. NFCL allocation of 1.775 MMSCMD was transferred to other fertilizer units. Accordingly, PIL was transporting the gas which was allocated to NFCL to other fertilizer units. The transport tariff is fixed by PNGRB, Government of India. NFCL was in zone 1 for transportation and tariff is Rs. 15/- per MMBtu. Other fertilizer units are in either zone 3 or zone 4 and the transportation tariff applicable for them is Rs. 48/- and Rs. 65/- respectively per MMBtu.
- c. In spite of NFCL allotted gas (same gas) transported to other units and PIL was getting revenue much higher than had the gas supplied to NFCL, PIL invoked Arbitration clause of “ship or pay” of the gas transportation contract. These facts had been brought during the Arbitration and PIL has confirmed in writing during the arbitration proceedings that they have made profits much higher by supplying to other units.
- d. It is unfortunate that Arbitrator has ignored the submissions and passed the Award in favour of PIL, in spite of they have not incurred any loss nor provided any proof of loss. As the gas allocated to NFCL (the same gas) was supplied to other fertilizer units, PIPL received three times of the NFCL transportation charges. PIPL has not incurred any loss but made profit due to non-transportation. This fact was brought to the notice of the Arbitrator however, Arbitrator took a different view and pass the award
- e. Under the provisions of Section 73 and 74 of the Indian Contract Act, the claim by the PIL is not as per law. Arbitration Award itself is beyond public policy of India and accordingly, the Company believing that it has good case based on merits filed appeal petition in Hon'ble High Court of Bombay under section 34 of Arbitration and Conciliation Act, 1996, vide case no. C.A.R.B.P. No. 335 of 2023, NFCL Vs. PIL (Sec 34) Bombay High Court, Justice Gauri Godse, dated February 06, 2023, for setting aside the award. The appeal is yet to be adjudicated by Hon'ble High Court of Bombay. The extract of Section 73 and 74 of the Indian Contract Act is attached **Annexure I**.

**2. Non-Disclosure as Material Event:**

- I. We wish to bring out to your kind notice two facts
- SEBI (LODR) Amendment, in July 2023, the requirement of disclosure prior to LODR Amendment and post LODR Amendment
  - Initiation of arbitration by PIPL 19-11-2019
  - Date of Arbitration Award January 2023.
- II. As the Arbitration proceedings were initiated 19-11-2019, the company proactively considered the contingent liability provided as the Contingent Liabilities under the heading “Matters under Arbitration” in financial year ending 31-03-2020 and thereafter continued to disclose contingent liabilities in financial year 2020-21 to 2022-23. The complete details are provided in table below:



<b>Nagarjuna Fertilizers and Chemicals Limited</b>						
<b>Contingent Liabilities not provided for</b>						
<b>Claims against the Company not acknowledged as debts - Rs in Crores</b>						
<b>Details</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
<b>Arbitration Cases</b>						
Pipeline Infrastructure Ltd	19.27	19.50	20.99	20.27	0.00	0.00
Others	158.63	158.11	172.96	189.44	13.25	21.63
<b>Total</b>	<b>177.90</b>	<b>177.61</b>	<b>193.95</b>	<b>209.71</b>	<b>13.25</b>	<b>21.63</b>
<b>Others Claims against the Companies</b>						
Pipeline Infrastructure Ltd \$	0.00	0.00	0.00	0.00	40.46	45.08
Others	238.70	370.90	273.86	428.46	585.03	749.25
<b>Total</b>	<b>238.70</b>	<b>370.90</b>	<b>273.86</b>	<b>428.46</b>	<b>625.49</b>	<b>794.33</b>
<b>Total Contingent Liabilities not provided for</b>	<b>416.60</b>	<b>548.51</b>	<b>467.81</b>	<b>638.28</b>	<b>638.74</b>	<b>815.96</b>
Copy of Schedule of Annual Accounts with break up showing party name	Annexure-II	Annexure-III	Annexure-IV	Annexure-V	Annexure-VI	Annexure-VII
<b>\$ As the matter is under appeal before Hon'ble High Court Bombay the arbitration award amount is treated as other claims against the companies from FY 2023-24 onwards</b>						

III. The Company in a transparent manner considered the PIL matter in the books in true and fair manner in the interest of the stakeholders. The copy of the relevant Schedule of the annual accounts for six financial years from 2019-20 to 2024-25 are attached as **Annexure II to Annexure VII** for perusal and reference. The said Annexures are also supported by complete details of Contingent liabilities. As regards the readers of Annual Report is concerned, either the shareholders or other stakeholders would have factor the total contingent liabilities appearing in the annual Accounts and for them name of the party is not material. Further there is no requirement for party wise disclosure of the contingent liabilities either in the Companies Act or in the accounting standards. Therefore, it is not a case of non-disclosures in January 2023 as material disclosure was being made since financial year 2019-20 onward as per the company materiality Policy.



- IV. *The triggering of the Material Event according to NFCL policy has been considered as on the date of submission of claim by PIL in 2019 itself. Therefore, the Award January 2023, does not required to be separately disclosed.*
- V. *As per the company Materiality Policy, since PIPL case contingent liability has been considered, it was an appropriate compliance with the LODR regulations till the date of LODR amendment i.e., July 2023.*
- VI. *As regards disclosure requirements after the amendment from July 2023, it is again a case for disclosure of an individual party wise liabilities Vs disclosure of total liability. Further the case is fit for non-disclosure of separate liability as per the criteria laid down in LODR Regulations.*
- a. *As per Show Cause Notice, materiality threshold is calculated at Rs. 36.42 Crores and the amount payable under the said litigation is calculated as Rs. 37.52 Crores, considering the simple interest charge at 24% as calculated by the Exchange. In this regard, it may be noted that the principal value of the award is Rs. 19.27 Crores and arbitration award cost of Rs. 1 Crore amounting to Rs. 20.27 Crores, which is far lesser than threshold of Rs. 36.42 Crores. The disputed part is the interest of Rs. 17.25 Crores at pervasive (excessive) rate of 24%. If the reasonable rate of interest as defined in the arbitration act, Civil procedure code is considered which is around 9% the interest amount will be tune of Rs. 6.47 Crores only.*
- b. *As award is challenged including rate of interest in the Hon'ble Bombay High Court, the contingent liability on account of interest, the said interest at 24% is not contingent liability under accounting standard, as the possibility of outflow is remote.*
- c. *The Company considered the reasonable rate of interest of around 9% on the amount of award, the total amount under the said litigation as per the Company is Rs. 26.74 Crores (Rs. 19.27 + Rs. 1.00 Crore + Rs. 6.47 Crores) which was far lower than threshold limit of 36.42 Crores, and therefore post LODR amendment it was considered not material.*

**VII. Companies Act**

*Section 129 (1) of the Companies Act provides that "the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III:*

*The SCHEDULE III (See section 129) Financial statements for a company whose financial statements are required to comply with the companies (accounting standards) rules, 2006 provide in para T about disclosure of contingent liabilities as under:*



**T. Contingent liabilities and commitments (to the extent not provided for)**

- (i) *Contingent liabilities shall be classified as:*
- (a) *Claims against the company not acknowledged as debt;*
  - (b) *Guarantees;*
  - (c) *Other money for which the company is contingently liable.*

*The Central Government MCA under section 133 of the Companies act issued notification dated 23 June 2021 specifying that every company shall comply with the Accounting Standards in the manner specified, the Accounting Standards 1 to 5, 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India, which are specified in the Annexure to the rules. The Accounting Standards came into effect in respect of accounting periods commencing on or after the 1st day of April 2021. The Accounting Standard (AS) 29 - Provisions, Contingent Liabilities and Contingent Assets.*

**Contingent Liabilities**

*Para 27 of Accounting Standards AS 29. A contingent liability is disclosed, as required by paragraph 68, unless the possibility of an outflow of resources embodying economic benefits is remote. Para 68 of Accounting Standards AS 29: Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable.*

**VIII. Accounting standard IND AS 37**

*IND-AS 37 specifies that an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable. Disclosure of “classes of obligations” such as “matters under arbitration, tax matters, other matters etc” not disclosure of individual cases is sufficient disclosure under the standard. NFCL has not breached the accounting standard requirements, just because PIL name is not mentioned.*

**3. Non consideration of excessive interest:**

*The sole Arbitrator has levied interest at rate of 24% on both pre award and post interest. In this regard, attention is drawn to following points:*

- I. Interest rate of 24% is considered as pervasive rate of interest and many of the cases court had struck down the interest levy of 18% to reasonable rate of interest around 9% as provided in the Arbitration and Conciliation Act.*
- II. Interest is levied to compensate the party for actual loss. In the instant case as explained above, the party has not suffered any loss and levying interest is not appropriate and correct.*



III. Reference is invited to section 31(7)(a) – pre-award interest, of the Arbitration and Conciliation Act, which provides reasonability of the rate of interest. The reasonability of the rate is decided based on Section 34 of Civil Procedure Code, capping post-decree interest at 6% unless otherwise agreed or specified by law. (Annexure VIII).

As regards reasonability of interest is concerned:

- a. Prior to the amendment to Arbitration and Conciliation Act, 1996, effective from 23.10.2015, section 31(7)(b) was “A sum directed to be paid by an Arbitral award shall, unless the award otherwise directs, carry interest at the rate of 18% per annum from the date of award to the date of payment.”
  - b. In the case of **steeman Ltd v. State of Himachal Pradesh, 1997**, (1) Arb LR 419,: 1997 (2) SCJ681: 1997(2) CLT 123(SC): 1997 (2) scale 534: 1997 (2) Supreme 748: 1997 (3) JT 390 : 1997(9) SCC 252 it was held that the agreement between parties on the rate of interest at 18% does not mean that the Arbitrator was bogged down to that rate, irrespective of other facts and circumstances of the case.
  - c. The supreme court in the case of **Mcdermott International Inc. v. Burn standard Co. Ltd. And others 2006** (5) ALT 1.4 (DNSC) = 2006 A.I.R (SCW) 3276=2006 (6) SCALE 220, held that: “Section 31(7) Constitution of India Article 142- grant of interest- power of Arbitrator to Award interest for pre-award period, pendent lite period and post award period, not in dispute. Rate of interest is as deemed reasonable by Arbitrator – 1996 Act, provides Awarding of 18% interest. Apex court reduced rate of interest to 7.5% from 10% Awarded by Arbitrator by invoking Article 142.
- IV. Reference is invited to 31(7)(b) – post award interest of the Arbitration and Conciliation Act, which provides the rate of interest prevailing rate plus 2% which will be around 9%. The levying of 24% interest on pre and post award, is beyond the scope of Arbitrator. (Annexure VIII)
- V. In view of the above, the company has decided to challenge the award in Hon'ble High Court of Bombay, there are many instances that the courts interfering on the rate of interest. Considering these facts, the interest levied was not considered part of the Contingent Liability though there is a specific award.
- VI. The company continued to provide the contingent liability without interest in the books till 2022-23. However, after the award is appealed in the court to total award value including interest is disclosed in year 2023-24 and 2024-25 as claims against the company. (Annexure VI & VII)



4. Form the above, it may be seen that company has not defaulted on the disclosure requirements or on Indian Accounting Standards (IND AS). The company in no way has got any benefit due to non-disclosure. The shareholders of the company also not lost any details as total contingent liabilities are disclosed and specific individual party disclosure does not make difference on any impact analysis of the Annual Report. NFCL has neither defaulted in IND-AS 37 nor on LODR Regulation.

**5. Financial Hardship**

After the sale of assets of the Company in May 2024, under SARFAESI Act, the Company has no operating assets, no operations and no income, Company's accounts from the FY 2024-25 are drawn on not a going concern basis starting June, 2024 quarter. The copies of the Audited balance sheet for the FY 2024-25 are annexed in Annexure IX. As the Company is facing financial constraint, this is a first-time show cause notice basis alleged technical lapse which is not a continuing default, without prejudice to the company's position that there is no default either before or after LODR Amendment, the adjudicating officer is requested to take a sympathetic view to exercise discretion under the principle of proportionality to issue a warning letter and close the matter without any penalty.

**Summary Conclusion**

In view of the facts that the company had no intention to breach LODR or applicable accounting standards, the company neither benefitted nor there is loss to shareholders, the matter is subjudice in the Hon'ble Bombay High Court as the award is challenged under section 34 of arbitration Act. The Company has acted under the Bonafide belief that disclosing an award which was immediately contested in a court of law would provide an incomplete and potentially misleading picture to investors, leading to unwarranted market volatility. The company has a strong case in Hon'ble Bombay High Court as the award overlooked some of basic facts, such as Ship or Pay charges are in nature of damages /penalty, PIL has not incurred actual loss in fact made profits and provisions of the Contract Act and Arbitration Act provisions, we request SEBI to close the matter at the earliest.

...”

**D. CONSIDERATION OF ISSUES AND FINDINGS**

8. I have carefully perused the allegations levelled against the Noticee in the SCN, their replies and the material / documents available on record. In the instant matter, the following issues arise for consideration and determination:

- I. Whether the Noticee had violated Regulation 30(3) read with Regulation 30(4)(i)(c) of the SEBI (Listing Obligations and Disclosure



Requirements) Regulations, 2015 read with Sub-para 8 of Para B of Part A of Schedule III thereof read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023, read with Regulation 4(1)(h) of LODR Regulations, 2015, Regulation 33(1)(c), Regulation 48 read with Regulation 4(1)(a), (b) and (h) of the said Regulations in relation to the arbitration award dated January 02, 2023 and the subsequent appeal proceedings?

- II. If yes, whether the violations on the part of the Noticee would attract monetary penalty under Sections 15HB and Section 15A(b) of the SEBI Act, 1992?
  - III. If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?
9. Before proceeding with the matter on merits, it would be relevant to state the regulatory provisions alleged to have been violated by the Noticee:

**SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

**Regulation 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.*
- 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.*

**Regulation 30(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).*

**Regulation 30(4)(i):**



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

- a) ...
- b) ...
- c) **\*\* the omission of an event or information, whose value or the expected impact in terms of value, exceeds the lower of the following:**
  - 1) two percent of turnover, as per the last audited consolidated financial statements of the listed entity;
  - 2) two percent of net worth, as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative;
  - 3) five percent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed entity;
- d) ...

**Provided that any continuing event or information which becomes material pursuant to notification of these amendment regulations shall be disclosed by the listed entity within thirty days from the date of coming into effect of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023.]**

**Regulation 30(6):**

The listed entity shall first disclose to the stock exchange(s) all events or information which are material in terms of the provisions of this regulation as soon as reasonably possible and in any case not later than the following:

(i) thirty minutes from the closure of the meeting of the board of directors in which the decision pertaining to the event or information has been taken;

(ii) twelve hours from the occurrence of the event or information, in case the event or information is emanating from within the listed entity;

(iii) twenty-four hours from the occurrence of the event or information, in case the event or information is not emanating from within the listed entity

**Regulation 33(1)(c):**

The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India.

**Regulation 48:**

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

**Sub-para 8 of Para B of Part A of Schedule III**



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

1. ...

8. Pendency of any litigation(s) or dispute(s) or the outcome thereof which may have an impact on the listed entity.]

**Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023.**

**8. Litigation(s) / dispute(s) / regulatory action(s) with impact:** The listed entity shall notify the stock exchange(s) upon it or its key management personnel or its promoter or ultimate person in control becoming party to any litigation, assessment, adjudication, arbitration or dispute in conciliation proceedings or upon institution of any litigation, assessment, adjudication, arbitration or dispute including any ad-interim or interim orders passed against or in favour of the listed entity, the outcome of which can reasonably be expected to have an impact.

**8.1. At the time of becoming the party:**

- a) brief details of litigation viz. name(s) of the opposing party, court/ tribunal/agency where litigation is filed, brief details of dispute/litigation;
- b) expected financial implications, if any, due to compensation, penalty etc;
- c) quantum of claims, if any;

**8.2. Regularly till the litigation is concluded or dispute is resolved:**

- a) the details of any change in the status and / or any development in relation to such proceedings;
- b) in the case of litigation against key management personnel or its promoter or ultimate person in control, regularly provide details of any change in the status and / or any development in relation to such proceedings;
- c) in the event of settlement of the proceedings, details of such settlement including -terms of the settlement, compensation/penalty paid (if any) and impact of such settlement on the financial position of the listed entity.

10. Now I proceed to deal with the allegations levelled against the Noticee.

**Issue No. 1: Whether the Noticee had violated Regulation 30(3) read with Regulation 30(4)(i)(c) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Sub-para 8 of Para B of Part A of Schedule III thereof read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023, read with Regulation 4(1)(h) of LODR**



**Regulations, 2015, Regulation 33(1)(c), Regulation 48 read with Regulation 4(1)(a), (b) and (h) of the said Regulations in relation to the arbitration award dated January 02, 2023 and the subsequent appeal proceedings?**

11. In this regard, it was inter alia observed and alleged that:

- 11.1 Pursuant to the amendment to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with effect from July 15, 2023, an objective quantitative threshold was introduced under Regulation 30(4)(i)(c) to determine materiality of events, thereby reducing discretion in disclosure decisions.
- 11.2 As on July 15, 2023, the amount payable by the Noticee pursuant to the arbitration award dated January 02, 2023 passed in favour of Pipeline Infrastructure Limited (“PIL”), including principal amount, interest at the rate of 24% per annum and arbitration costs, aggregated to approximately ₹37.14 crore, which exceeded the materiality threshold of approximately ₹36.42 crore computed in terms of Regulation 30(4)(i)(c).
- 11.3 In terms of the proviso to Regulation 30(4)(i), any continuing event or information which becomes material pursuant to the amendment was required to be disclosed within thirty days from the date of coming into effect of the amendment, i.e., on or before August 14, 2023.
- 11.4 The receipt of the arbitration award dated January 02, 2023 and the subsequent appeal petition filed by the Noticee under Section 34 of the Arbitration and Conciliation Act, 1996 before the Hon’ble Bombay High Court on April 03, 2023 constituted material events requiring disclosure under Regulation 30(3) read with Regulation 30(4)(i)(c) and Sub-para 8 of Para B of Part A of Schedule III of the LODR Regulations read with Clause 8 of Annexure 18 of SEBI Circular dated July 11, 2023.
- 11.5 Despite the said events becoming material pursuant to the amendment, no disclosure was made by the Noticee to the stock exchanges within the prescribed timeline or thereafter.
- 11.6 By aggregating the arbitration award in favour of PIL with other arbitration matters under the head “Matters under Arbitration” / “Other claims”,



without providing a separate description of the nature of the obligation and its financial impact, the Noticee failed to comply with the disclosure requirements prescribed under Para 86 of Indian Accounting Standard (IND-AS) 37.

11.7 On account of the above, the Noticee was alleged to have violated Regulation 30(3) read with Regulation 30(4)(i)(c), Regulation 33(1)(c), Regulation 48 read with Regulation 4(1)(a), (b) and (h) of the LODR Regulations.

## 12. Disclosure obligations prior to July 15, 2023

12.1 Prior to July 15, 2023, disclosure of events specified under Para B of Part A of Schedule III of the LODR Regulations was governed by Regulation 30(3), which required application of guidelines for materiality as determined by the listed entity through a board-approved materiality policy. During the relevant period, the Company had in place a materiality policy adopted by its Board on February 08, 2019. Under the policy, the authority to determine whether an event was material was vested in the Managing Director, to be exercised on a case-to-case basis depending upon the facts and circumstances of each event. Clause VI of the policy is reproduced as under:

“ ...

**VI. CRITERIA FOR DETERMINING MATERIALITY OF EVENTS / INFORMATION**

***Materiality will be determined on a case to case basis depending upon the facts and circumstances pertaining to the event, transaction, and / or information. The Managing Director shall frame his opinion on a case to case basis, based on specific facts and circumstances relating to materiality of the event, transaction or information.***

*The event, transaction or information specified in Para A of Part A of Schedule III of the Regulations shall be disclosed to the Stock Exchanges without any application of guideline for materiality.*

*The events or information specified in Para B of Part A of Schedule III of the Regulations described in Annexure II, shall be disclosed based on the disclosure process described in the policy.*



The Managing Director may consider the below inter alia guidelines for determining materiality of event, transaction or information. The event, transaction or information shall be considered as material if it inter alia meets any of the following criteria:

**5) The consideration involved in the transaction as a percentage of the consolidated turnover, net worth or profit, as per last audited financial statements;**

...”

- 12.2 I note that the policy refers to consideration of financial parameters such as consolidated turnover, net worth and profit as per the last audited financial statements while assessing materiality. However, the policy does not prescribe specific quantitative thresholds or defined percentages for applying such parameters.
- 12.3 In response to queries raised by the stock exchange regarding disclosure of the arbitration proceedings and the subsequent arbitral award, the Company had stated that the litigation had been disclosed since inception in the annual report for FY 2021-22 under the head “Matters under Arbitration” and that disclosures had also been made in the contingent liabilities section of the financial statements for the years ended March 31, 2023 and March 31, 2024.
- 12.4 Upon verification of the annual reports for FY 2021-22 and FY 2022-23 and the financials for FY 2023-24, it was observed that no separate or specific disclosure was made in respect of the arbitration proceedings involving PIL and that the disclosures were made only in an aggregated manner along with other arbitration matters. It was also observed that, having regard to the manner in which the materiality policy was framed, there were no clearly defined criteria on the basis of which materiality of the arbitration-related events could be objectively ascertained during the pre-amendment period.
- 12.5 The Noticee in its reply to the SCN has contended that *“Under our pre-amendment materiality policy, such an event would typically be considered material for exchange disclosure only if the amount exceeded a higher threshold (for instance, a fixed sum or a percentage of networth/turnover that is larger than this claim) or if significantly altered*



*the Company's earnings prospects*". It was further contended that the award was being vigorously contested and no actual outflow had occurred which made the Noticee believe that the expected impact of the event on the Noticee company was limited. I note that at the relevant time, Regulation 30 did not prescribe any objective or minimum quantitative threshold for determining materiality. The framework consciously permitted a degree of subjectivity, to be exercised through a board-approved materiality policy. In such a regime, the absence of defined numerical thresholds in a materiality policy, though not ideal from a governance perspective, cannot by itself be regarded as non-compliance, provided the decision not to disclose is founded on a bona fide assessment of materiality having regard to qualitative and quantitative factors.

- 12.6 The regulatory framework did not mandate disclosure of every litigation or arbitration event, but required an assessment of materiality based on the facts and circumstances. Owing to the absence of objective benchmarks under the pre-amendment regime, a definitive conclusion on whether the arbitration-related events ought to have been disclosed under Regulation 30 during the said period could not be objectively arrived at solely on the basis of the policy.
- 12.7 In these circumstances, while the Company's approach to documenting and articulating its materiality assessment during the pre-amendment period cannot be said to be robust, the existence of a broadly worded policy and a subjective assessment, in a regime that permitted such discretion, does not warrant an adverse finding of violation under Regulation 30 for the period prior to July 15, 2023.
- 12.8 Accordingly, I hold that no violation of Regulation 30 is established for the period prior to July 15, 2023.

### **13. Post-amendment disclosure obligation (with effect from July 15, 2023)**

- 13.1 With effect from July 15, 2023, Regulation 30(4)(i)(c) introduced an objective, quantitative materiality threshold, and the proviso thereto



required disclosure of any continuing event which became material pursuant to the amendment within thirty days. For the purposes of the present proceedings, the examination of compliance under Regulation 30 is confined to the period subsequent to July 15, 2023.

13.2 I note that it becomes pertinent to determine whether the arbitration award constituted a material event within the meaning of Regulation 30(4)(i)(c) of LODR Regulations which became applicable with effect from July 15, 2023.

13.3 Regulation 30(4)(i)(c) of LODR Regulations post amendment vide SEBI (LODR) (Second Amendment) Regulations, 2023 prescribes the following threshold for determination of materiality of events/information

***c) the omission of an event or information, whose value or the expected impact in terms of value, exceeds the lower of the following:***

- 1) *two percent of turnover, as per the last audited consolidated financial statements of the listed entity;*
- 2) *two percent of net worth, as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative;*
- 3) *five percent of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed entity;*

c) *In case where the criteria specified in sub-clauses (a), (b) and (c) is not applicable, an event or information may be treated as being material if in the opinion of the board of directors of the listed entity, the event or information is considered material:*

***Provided that any continuing event or information which becomes material pursuant to notification of these amendment regulations shall be disclosed by the listed entity within thirty days from the date of coming into effect of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023.]***

13.4 The Company's calculation of materiality as provided to NSE was as follows:

a. Basis the Turnover as on March 31, 2023.

Sr.No.	Turnover as on March 31, 2023	Calculation of Criteria (2% of Turnover)
1.	Rs. 5,642.20 Crores	Rs. 112.84 Crores

b. Basis the Net worth as on March 31, 2023.



Sr.No.	Net worth as on March 31, 2023	Calculation of Criteria (2% of Turnover)
1.	Rs. (2,588.31) Crores.	NA As the Net Worth is Negative

c. Basis the Average Absolute profit / loss after tax for last three years.

Year	profit / loss after tax as on March 31, 2023	Calculation of Criteria (5% of Average Absolute profit / loss after tax for last three years)
2021	Rs. (615.92) Crores	Rs. 36.69 Crores

13.5 For the purpose of determining the threshold, reliance was placed by NSE on the financial statements of the Company for the year ended March 31, 2023, being the latest audited financials available as on July 15, 2023. Based on the said financial statements, the materiality threshold stood computed on record as follows:

Turnover as on March 31, 2023	Calculation of Criteria (2% of Turnover)
Rs. 5,642.20 Crores	Rs. 112.84 Crores

Year.	Profit / loss after tax	Calculation of Criteria (5% of Average Absolute profit / loss after tax for last three years)
2021	Rs. 615.33 Crores	Rs. 36.42 Crores
2022	Rs. 669.90 Crores	
2023	Rs. 900.09 Crores	
Total	Rs 2185.32Crores	
Average	Rs. 728.44 Crores	

**Calculation for Liability as on August 14, 2023:**

Particulars	Number of Days	Interest Amount
from 19.11.2019 till Year end	41	51,93,994
Year 2020	366	4,62,39,218
Year 2021	365	4,62,39,218



Year 2022	365	4,62,39,218
Year 2023 till 14.08.2023	226	2,86,30,310
<b>Total Interest (A)</b>		<b>17,25,41,958</b>
<b>Principal Amount (B)</b>		<b>19,26,63,408</b>
<b>Arbitration Award Cost (C)</b>		<b>1,00,00,000</b>
<b>Total Outstanding (A+B+C)</b>		<b>37,52,05,366</b>

*The basis of Principal Amount and the simple Interest charged @ 24 % is being taken from the Award Copy.*

13.6 I note from the comparison of the above tables that the exposure arising from the arbitration award (Rs. 37.14 crore) exceeded the applicable materiality threshold of Rs. 36.42 crore. Accordingly, upon crossing of the prescribed threshold, the arbitration award constituted a material continuing event within the meaning of Regulation 30(4)(i)(c) of LODR Regulations. In terms of the proviso to Regulation 30(4) (i), such event was required to be disclosed within 30 days from July 15, 2023.

13.7 Since the receipt of arbitration award by the Company has become material, the subsequent event of Appeal Petition filed by the Company u/s 34 of Arbitration and Conciliation Act, 1996 read with Commercial Court Act, 2015, against the Arbitration Award before the Hon'ble Bombay High Court has also become material in terms of Sub-para 8 of Para B of Part A of Schedule III of LODR Regulations, 2015 which requires disclosure of litigation or disputes and their outcomes impacting a listed entity subject to guidelines for materiality read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023 read with Regulation 4(1) (h) of LODR regulations, 2015.

13.8 Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023 reads as follows:

**8. Litigation(s) / dispute(s) / regulatory action(s) with impact:** *The listed entity shall notify the stock exchange(s) upon it or its key management personnel or its promoter or ultimate person in control becoming party to any litigation, assessment, adjudication, arbitration or*



*dispute in conciliation proceedings or upon institution of any litigation, assessment, adjudication, arbitration or dispute including any ad-interim or interim orders passed against or in favour of the listed entity, the outcome of which can reasonably be expected to have an impact.*

**8.1. At the time of becoming the party:**

a) *brief details of litigation viz. name(s) of the opposing party, court/ tribunal/agency where litigation is filed, brief details of dispute/litigation;*

b) *expected financial implications, if any, due to compensation, penalty etc;*

c) *quantum of claims, if any;*

**8.2. Regularly till the litigation is concluded or dispute is resolved:**

a) *the details of any change in the status and / or any development in relation to such proceedings;*

b) *in the case of litigation against key management personnel or its promoter or ultimate person in control, regularly provide details of any change in the status and / or any development in relation to such proceedings;*

c) *in the event of settlement of the proceedings, details of such settlement including - terms of the settlement, compensation/penalty paid (if any) and impact of such settlement on the financial position of the listed entity.*

13.9 I am of the view that the arbitration award and its subsequent appeal amounts to “litigation” under the aforesaid clause of SEBI Circular. With regards to the Noticee’s submission that *“Given our strong case that the award could be stayed or vacated on appeal, we did not reasonably expect the full amount to impact NFCL”*, I am of the view that the pendency of appellate proceedings does not dilute the disclosure obligation under Regulation 30, which is triggered by materiality and not finality. It is pertinent to highlight that Regulation 4 (1) (h) clearly mentions that *“The listed entity shall make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders”*.

13.10 I also note that in the additional submissions, considerable emphasis has been placed by the Noticee on the contention that the arbitral award includes interest at the rate of 24% which is pervasive and contrary to the settled principles under the Arbitration and Conciliation Act, 1996 and the jurisprudence governing reasonableness of interest. The



Noticee has advanced multiple case laws on reasonability of interest in which the courts have commented upon levying unreasonable interest rates and in certain cases, reduced the rate of interest. In this regard, I reiterate that while the pendency of appeal and possibility of judicial interference are relevant considerations for assessing the likelihood of outflow of liability, the fact remains, that as on the relevant date, the arbitral award carried a quantified interest component forming part of the award. Accordingly, the challenge to the interest component does not, by itself, take the awarded interest outside the scope of disclosure as a contingent exposure.

13.11 I further note the submission that the Company continued to disclose the contingent liability without including the interest component in its books up to FY 2022-23, and that the total award value including interest was disclosed in subsequent years. However, after the award was appealed in the court, the total award value including interest is disclosed in the year 2023-24 and 2024-25 as claims against the company. However, the relevance of such contentions arises primarily in the context of accounting treatment and disclosure of contingent liabilities. Accordingly, these aspects are examined separately while dealing with the issue relating to compliance with Indian Accounting Standard 37 (IND-AS 37) later in this order.

13.12 Further, I am of the view that the disclosure requirements under the respective regulations serve very important purposes. The stock exchange is informed via disclosures so that the investing public will come to know of the position enabling them to stay with or exit from the company. Moreover, correct and timely disclosures play an essential role in the proper functioning of the securities market and the failure to do so may result in depriving the investors from taking well informed investment decision. Accordingly, in my view, the failure to disclose the arbitration award and the subsequent appeal proceedings after July 15, 2023 constitutes a violation of Regulation



30(3) read with Regulation 30(4)(i)(c) of the LODR Regulations read with Sub-para 8 of Para B of Part A of Schedule III of LODR Regulations, 2015 read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023, read with Regulation 4(1)(h) of LODR Regulations, 2015.

#### **14. Failure to comply with the reporting requirement under IND-AS 37**

14.1 In this regard, from the material available on record, I note that briefly stated, it has been inter alia alleged that the Noticee failed to disclose the concerned Arbitration Award in the Annual Report of the Noticee Company thereby failing to adhere to Indian Accounting Standard 37 (IND-AS 37) while preparing its financials which specifies that an entity shall disclose brief description of the nature of obligation. Accordingly, it was inter alia alleged that the Company, on account of failure to comply with reporting requirement as per Para 86 of IND-AS 37 i.e. separate disclosure of the nature of obligation including estimate of its financial effect as regards arbitration award passed in favour of Pipeline Infrastructure Limited, has consequentially violated Regulation 33(1)(c) & Regulation 48 of LODR Regulations read with Regulation 4(1)(a), (b) and (h) of LODR Regulations, 2015.

14.2 From the reply of the Noticee to the SCN, I note that the primary contention of the Noticee is that *“PIL litigation event was disclosed “since inception” under the head “Matters under Arbitration” in the Annual Report for FY 2022-23, 2023-24 and 2024-25 and it was duly considered in the contingent liabilities...”*.

14.3 I note that as per Regulation 4(1) of LODR Regulations, a listed entity which has listed securities is required to make disclosures and abide by the obligations cast under these regulations, in accordance with the stated principles, which inter alia include that under Regulation 4(1) (a) of LODR Regulations, as per which an obligation is cast on a listed entity to prepare



information and disclose the same in accordance with applicable standards of accounting and financial disclosures. Besides, in terms of Regulation 4(1)(b) of LODR Regulations, a listed entity is inter alia required to implement the prescribed accounting standards in letter and spirit in the preparation of financial statements. Regulation 4 (1) (h) clearly mentions that the listed entity shall make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.

14.4 Regulation 33 of the LODR Regulations titled “Financial Results” states that while preparing the financial results, the same shall be prepared as per Generally Accepted Accounting Principles in India. The listed company may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board. Regulation 48 of the LODR Regulations states that the listed company shall comply with all the applicable and notified Accounting Standards from time to time. Here it would also be relevant to draw reference to the provisions relating to applicability of the Indian Accounting Standards (IND AS) to the listed entities and the relevant Indian Accounting Standard. Para 86 of IND AS 37 relates to “Provisions, Contingent Liabilities and Contingent Assets which states the following:

*Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a **brief description of the nature of the contingent liability** and, where practicable:*

- (a) **an estimate of its financial effect**, measured under paragraphs 36–52;*
- (b) **an indication of the uncertainties relating to the amount or timing of any outflow**; and*
- (c) the possibility of any reimbursement.*

14.5 In this regard, in the instant matter, it was observed that Company had not made any separate disclosure in the notes to accounts pertaining to arbitration award passed in favour of Pipeline Infrastructure Limited and consequent appeal petition filed by the Company against the Arbitration Award before the Hon’ble Bombay High Court. The Company in notes to



accounts no 32 viz “Contingent Liabilities and Commitments”, had disclosed the consolidated figure under sub head “matters under arbitration” amounting to Rs 209.82 crores. (page 108-109 of annual report). Further, the Company had not provided any specific or separate mention regarding the said arbitration award granted in favour of PIL in the aforementioned consolidated figure of Rs 209.82 crores, nor has it been addressed in the explanation accompanying the said Note 32 in the annual report of FY 2022-23.

14.6 Further upon perusal of the annual report for FY 2023-24, it was observed that Company in the notes to accounts no 32, had disclosed the consolidated figure under sub head “matters under arbitration” amounting to Rs 13.25 crores for year ended on March 31, 2024. The Company had disclosed amount of Rs 621.81 crores under the sub head “Other claims against the group”. (refer page 105-106 of annual report for FY 2023-24). Further, the Company had not provided any specific or separate mention regarding the said arbitration award granted in favour of PIL in the aforementioned consolidated figure of Rs 621.81 crores, nor has it been addressed in the explanation accompanying the said Note 32 in the annual report of FY 2023-24

14.7 The Noticee in its reply to the SCN with respect to this allegation has submitted that the PIL arbitration matter was disclosed in aggregate form under the head “Matters under Arbitration” forming part of contingent liabilities in the Annual Reports for FY 2022-23, FY 2023-24 and FY 2024-25. The Noticee states that it had clarified to the stock exchange that the PIL litigation event had been disclosed “since inception” under this head and was duly considered as part of contingent liabilities.

14.8 With respect to earlier years, the Noticee explained that Note 32 (“Contingent Liabilities and Commitments”) included a category “Matters under Arbitration” as a subset of “Claims against the Company not acknowledged as debt,” which encompassed all arbitration disputes



involving the Company. According to the Noticee, stakeholders reading the financial statements would therefore have been aware that certain matters were under arbitration.

14.9 For FY 2022-23, the Noticee submitted that although the award had been passed and was under challenge, the financial statements disclosed “Matters under arbitration” as a contingent liability and the total amount under this sub-head represented the aggregate of all outstanding arbitration claims, which included the PIL award. While individual arbitrations were not itemized by party or case, they were described in brief in the relevant notes. The Noticee states that this approach was adopted to balance completeness with clarity, as listing every legal case individually is not practically possible.

14.10 For FY 2023-24, the Noticee submitted that as matters evolved, it refined its disclosure categories. By March 31, 2024, pending arbitrations were substantially resolved or reclassified. In the case of the PIL award, after the arbitration concluded and enforcement proceedings were underway, the exposure was reclassified under “Other claims,” with the total exposure disclosed. It is submitted that while no individual claim was named, the magnitude of contingent liabilities was clearly communicated and the notes to accounts explained the nature of these claims. The Noticee states that this method of disclosure is consistent with standard accounting practice for contingent liabilities.

14.11 The Noticee further submitted that Paragraph 86 of IND-AS 37 requires disclosure for each “class of contingent liability” and not individual case-wise disclosure. It is emphasized that the standard requires a brief description of the nature of the contingent liability, an estimate of its financial effect, and indications of uncertainties and possible reimbursements.



14.12 Accordingly, the Noticee stated that it identified classes of contingent liabilities such as “Matters under arbitration,” “Other claims,” and “Tax matters in appeal,” and that this classification itself constitutes the brief description of the nature of the obligations. By labelling liabilities as “Matters under arbitration,” the Company conveyed that such liabilities arise from arbitration awards or proceedings and highlighted this as a distinct category.

14.13 It is also submitted that the Company provided estimates of the financial effect for each class by stating the rupee amount of contingent liabilities in that class, thereby quantifying the exposure. The Noticee added that it included narrative explanations of uncertainties in the notes, including status descriptions and management’s views on enforceability for major arbitration cases. Although the PIL case was not explicitly described, the general uncertainties inherent under the relevant class of contingent liabilities would apply to it as well.

14.14 The Noticee therefore contended that its disclosures are in line with standard accounting practices and that IND-AS 37 does not require each individual contingent liability to be separately named and detailed where disclosure by class has been made. As indicated earlier in the order, the Noticee has also placed emphasis on the contention that the rate of interest awarded under arbitration is excessive, is under challenge before the Hon’ble Bombay High court and therefore, carries uncertainty as to the actual outflow of liability. These submissions are relevant in the context of accounting treatment of exposure under IND-AS 37.

14.15 I note that as per IND-AS 37, the disclosure requirement in respect of contingent liabilities is structured around the concept of “classes of contingent liabilities”. Paragraph 86 of the Standard requires an entity to disclose, for each class of contingent liability, a brief description of the nature of the obligation, an estimate of its financial effect where



practicable, and an indication of the uncertainties relating to the amount or timing of any possible outflow. The Standard does not mandate that each individual contingent liability within a class must necessarily be separately identified or itemised, unless such level of detail is required to enable users of financial statements to understand the nature and financial effect of the contingencies.

14.16 I further note that the objective of IND-AS 37 is to ensure meaningful disclosure of potential obligations arising from past events, without prescribing a rigid or mechanical format for disclosure. The Standard permits aggregation of similar contingent liabilities under appropriate classes, provided that the aggregate exposure is quantified and the nature of the class and associated uncertainties are adequately explained.

14.17 In the present case, the Noticee has disclosed arbitration-related contingent liabilities under identifiable class headings, quantified the aggregate financial exposure under such classes, and provided narrative explanations regarding the nature of disputes and the uncertainties surrounding their outcome. It is not disputed that the exposure arising from the PIL arbitration formed part of the aggregate contingent liabilities disclosed in the financial statements.

14.18 While separate identification of a large individual arbitration matter may, from an investor-communication perspective, provide greater clarity, the absence of such itemisation does not, by itself, amount to non-compliance with IND-AS 37, particularly in the absence of an express requirement under the Standard mandating case-wise disclosure. Accordingly, I am unable to conclude that the disclosure made by the Noticee in respect of contingent liabilities falls below the minimum disclosure threshold contemplated under IND-AS 37.



14.19 Accordingly, on a holistic consideration of the provisions of IND-AS 37 and the disclosures made by the Noticee, I am unable to conclude that the Noticee's approach falls below the minimum disclosure threshold contemplated under the Standard. The charge of violation of IND-AS 37, and the consequential allegation under Regulations 33(1)(c) and 48 of the LODR Regulations read with Regulation 4 (1)(a), (b) and (h) of LODR Regulations, is therefore not sustained.

**Issue No. II: Do the violations, if any, on the part of the Noticee attract monetary penalty under Section 15A(b) of the SEBI Act, 1992?**

15. It has been established in the foregoing paragraphs that Noticees have violated Regulation 30(3) read with Regulation 30(4)(i)(c) of the LODR Regulations read with Clause 8 of Annexure 18 of SEBI Circular SEBI/HO/CFD/PoD2/CIR/P/2023/120 dated July 11, 2023, read with Regulation 4(1)(h) of LODR Regulations, 2015 under Section 15A(b) of SEBI Act, 1992.
16. The Hon'ble Supreme Court of India in the matter of SEBI v/s Shri Ram Mutual Fund [2006] 68 SCL 216(SC) held that "*In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established.....*".
17. The primary objective of LODR Regulations, 2015 is to ensure fair treatment of shareholders by mandating fair, adequate and timely disclosures by listed entities. Such disclosures are fundamental to maintaining the integrity of the securities market and constitute an essential element of sound corporate governance. Any failure to comply with these disclosure requirements undermines investor confidence and impairs the ability of investors to make well-informed decisions.
18. In view of the foregoing, I find that Noticee is liable for monetary penalty under Section 15A(b) of SEBI Act, 1992. The text of Section 15A(b) of SEBI Act, 1992 is reproduced below:



“  
...  
**Penalty for failure to furnish information, return, etc.**

*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]];*

...”

**Issue No. III: What should be the quantum of monetary penalty?**

19. While determining the quantum of penalty under section 15A(b) of SEBI Act, the following factors stipulated in section 15J of the SEBI Act have to be given due regard:-

**SEBI Act**

*“15J. Factors to be taken into account by the adjudicating officer while adjudging quantum of penalty under Section 15-I, 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.*

20. In the present matter, I note from the material available on record that no quantifiable figures are available to assess the disproportionate gain or unfair advantage made as a result of such non-compliance by the Noticee. Further, from the material available on record, it is not possible to ascertain the exact monetary loss to the investors on account of non-compliance by the Noticee, nor has it been alleged by SEBI. However, I cannot ignore the fact that in a disclosure based regime, the essence is about timely disclosures which, if compromised with, may pose threat to orderly functioning of the securities



markets and /or loss of investor confidence in the integrity of the securities market and that in the instant case, the Noticee has failed to make timely disclosures.

21. I have also considered the submission of the Noticee regarding the financial position of the Company, including the fact that following the sale of its assets under proceedings initiated under the SARFAESI Act, the Company presently has no operating assets and no income. It has also been contended that the present lapse is a first instance and not continuing in nature. However, I cannot ignore that compliance with extant applicable provisions of LODR Regulations, as cited, in the instant matter, was obligatory and SEBI is duty-bound to enforce compliance of these regulations.

22. Thus, I feel it appropriate to levy a penalty which is commensurate with the nature of violation and which acts as a deterrent to the Noticee.

#### **E. ORDER**

23. Having considered the facts and circumstances of the case, the material available on record, the factors mentioned in Section 15J of the SEBI Act, I, in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the Adjudication Rules 1995, hereby impose penalty of 1,00,000/- (Rupees One Lakh Only) under Section 15A(b) of SEBI Act, 1992. I am of the view that the aforesaid penalty is commensurate with the violation committed by the Noticee.

24. The Noticee shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. [www.sebi.gov.in](http://www.sebi.gov.in) on the following path, by clicking on the payment link: **ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW**

25. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with



interest thereon, inter alia, by attachment and sale of movable and immovable properties.

26. In terms of Rule 6 of the Adjudication Rules, 1995, copy of this order is sent to the Noticee and also to SEBI.

**DATE: March 23, 2026**  
**PLACE: MUMBAI**

**SUDEEP MISHRA**  
**ADJUDICATING OFFICER**