WTM/AB/IVD/ID19/13326/2021-22

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

Under Sections 11(1), 11(4), 11(4A), 11A, 11B(1), 11B(2) and 15I of the Securities and Exchange Board of India Act, 1992 read with Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and Sections 12A(1), 12A(2) and 23I of Securities Contracts (Regulations) Act, 1956 read with Rule 5 of the Securities Contracts (Regulation) (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005.

Noticee No.	Name of Noticees	PAN
1.	M/s. JMD Ventures Limited	AAACA4340C
2.	Mr. Kailash Prasad Purohit	AFQPP2675H
3.	Mr. Jagdish Prasad Purohit	AFSPP1444E
4.	Mr. Johar Pal Singh	AMBPS8591F
5.	Mr. Mohit Jhunjhunwala	AHMPJ8136F
6.	Ms. Saroj Devi Kothari	ARCPK1018M
7.	Mr. Pravin T Sawant	ANTPS3885K
8.	Mr. Shiv Kumar Yadav	AEIPY6988B
9.	M/s Mehta Kothari & Associates, Chartered Accountants	Not Available

(Aforesaid entities are hereinafter individually referred to by their respective name or noticee number and collectively as "the Noticees".)

In the *matter of* JMD Ventures Limited

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1. The present order deals with two show cause notices (hereinafter collectively referred to as '**SCNs**') issued by Securities and Exchange Board of India (hereinafter referred to as "**SEBI**"), the details of which are as follows:

(i) Show Cause Notice No. SEBI/HO/IVD/ID19/OW/P/2020/0000013576/1-8 dated August 21, 2020 issued to Noticee no. 1 to 8 (hereinafter referred to as "**SCN**");

(ii) Show Cause Notice No. SEBI/HO/IVD/ID19/OW/P/2020/0000013577/1 dated August 21, 2020 issued to Noticee no. 9 (hereinafter referred to as "**SCN-II**"); and

2. SCN calls upon Noticee no. 1 to 8 to show cause as to why suitable directions should not be issued and/or penalty not be imposed, as deemed fit under Section 11(1), 11(4), 11(4A), 11A and 11B(1), 11B(2) read with Section 15A(a), Section 15HA and 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as "**SEBI Act, 1992**") and Section 12A(1) & 12A(2) read with Section 23E and 23H of Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as "**SCRA, 1956**") against them for violations of Sections 12A(a), (b) & (c) of the SEBI Act, 1992 and Regulations 3(b), (c) and (d), 4(1), 4(2) (f) & (r) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as "**PFUTP Regulation, 2003**"), Regulations 4(1) (a), (b), (c), (e), (g), 4(2)(f)(i)(2), 4(2)(f)(ii)(6) & (7), 4(2)(f)(iii)(1), (3), (6) & (12), Regulation 17(8) read with Part B of Schedule II, Clause B(2) of Schedule III read with Reg. 30, Regulation 33(2)(a) and Regulation 48 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as "**LODR Regulations**"), and Section 21 of SCRA, 1956.

3. SCN-II, call upon Noticee no. 9, to show cause as to why suitable directions, as deemed fit under Section 11, 11B and 11D of SEBI Act, 1992, should not be issued against them for violation of Section 12A (a) (b) (c) of the SEBI Act, 1992 and Regulation 3(b), 3(c), 3(d), 4(1), 4(2)(a), 4(2)(e), 4(2)(f) and 4(2)(r) of PFUTP Regulation, 2003, as statutory auditor of Noticee no. 1.

4. The brief facts of the case, the brief findings of the investigation and the allegations levelled against the Noticees, as mentioned in the SCN are as follows:

4.1. SEBI passed an interim order on September 14, 2017 *inter-alia* directing the promoters and the directors (Noticee no. 2 to 6) of the JMD Ventures Limited (Noticee no.1, hereinafter referred to as "**the Company**" or "**JMD**") to only buy the securities of JMD and shares held by them in the Company shall not be allowed to be transferred for sale by depositories. Further, vide the said interim order, the stock exchange was directed to appoint an independent forensic auditor to, inter-alia, further verify:

4.1.1. Misrepresentation including of financials and/or business of JMD Ventures Limited, if any;

4.1.2. Misuse of the books of accounts / funds including facilitation of accommodation entries, if any.

4.2. The forensic audit report **(Annexure 2)** was submitted to SEBI and the findings of the forensic audit report (for the period of April 2015 till January 31, 2018) were examined by SEBI in the investigation.

4.3. The investigation by SEBI, inter-alia, revealed the following:

I. <u>Violations of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015:</u>

4.3.1. Non-disclosure/ misreporting of Related Party disclosures amounting to INR 32.54 crores.

4.3.2. Deviation from main business activity i.e. advancing more than 50% of total asset base in form of loans and advances without taking approval from RBI.

II. <u>Misrepresentation including of financials and misuse of funds/ books of accounts:</u>

4.3.3. Misreporting by the company with regard its related party transactions and dealings of the company with or through directors

4.3.4. Lack of supporting documents including VAT Challans for sales of INR 212.88 crore and purchases of INR 212.15 crore concluding the non genuinity of transactions.

4.3.5. Non-genuine purchases amounting to INR 61 crore approximately from an entity named “Blue Sea Commodities Pvt. Ltd.”, incorporated on June 29, 2016 only.

4.3.6. Non submission of supporting documents for investments in unquoted equity shares leading to misrepresentation and overstating of investments.

4.3.7. Trade receivables of INR 22.2 Crore outstanding from entities which are under liquidation and no provisioning done for the same resulting in overstatement of profits of the company.

4.3.8. Reporting of non-genuine trade payable amount of INR 76.31 crores due to the entities from whom no purchases are made during FY 15-16; no supporting documents/ explanation provided for the same.

4.3.9. Lack of supporting documents for advances given for properties amounting to INR 11.49 crores of which only MOU provided for advance of INR 2.5 Crore.

4.3.10. Reporting of non-genuine Inter-Corporate Deposit made to Shree Metaliks Limited amounting to INR 3.45 crores.

4.3.11. Discrepancy in the amount for interest income and in certain entities interest income not charged which is detrimental to the interest of shareholders.

These irregularities tantamount to misrepresentation of financial /misuse of funds/ books of accounts of the company during the investigation period and has misled

existing and prospective investors and induced them to trade in the securities of the Company.

III. <u>Non-furnishing of information to the forensic auditor:</u>

4.3.12. Exchange vide letter dated April 17, 2018 informed the company about the appointment of forensic auditor in line with SEBI order dated September 14, 2017 (i.e. date of interim order). In the same letter, the exchange requested the company to provide information to the forensic auditor.

4.3.13. However, the company did not furnish the required information/supporting documents as sought by the forensic auditor. Details of said information/supporting documents are provided in the Forensic Audit Report.

5. I note that Noticee no.1 has filed his merit based reply dated January 25, 2021. Noticee no. 2, 3, 6, 7 and 8, have vide their separate letters dated March 12, 2021 given their consent to adopt the reply filed by JMD. (Noticee no. 1, 2, 3, 6, 7 and 8, are hereinafter collectively referred to as "**the Replying Noticees**"). Noticee no. 5 has filed his reply dated April 9, 2021 and Noticee no. 9 has filed his reply dated March 9, 2021. The personal hearing in the matter was scheduled on April 19, 2021, on which date Noticee no. 2 appearing for himself and on behalf of Noticee no. 1 was heard. Noticee no. 9 was also heard on the scheduled date of hearing. Noticee no. 3, 5, 6, 7 and 8 did not avail the opportunity of personal hearing.

6. I note that, in the order dated July 8, 2021 bearing reference no. WTM/AB/IVD/ID19/12493/2021-22, in the matter of V B Industries Ltd., WTM-SEBI had recorded at para 6 that Mr. Johar Pal Singh (Noticee no. 4 herein) has died on November 11, 2019. In view of the same, I note that the present proceedings against Noticee no. 4 stand abated.

7. Noticee no. 5, vide his reply dated April 9, 2021, raised the following key contentions to the allegations in the SCN:

7.1. I was appointed as independent director of the company on January 14, 2015 and resigned on March 7, 2017. During my tenure, I only attended the quarterly meetings of the board of directors held for the purpose of finalization of quarterly and financial statement of JMD.

7.2. I had no role to play in day to day affairs of the Company.

7.3. I would like to state that nothing in the findings of the SCN specifically justifies that there was any omission or commission by the Company which has occurred with my knowledge or attributable to me in particular or with my consent or connivance, where I had not acted diligently.

Consideration of submissions and findings:

1. I have considered the allegations in the SCNs, replies received, and submissions made by the Noticees during the personal hearing granted to them. The SCNs alleges the violation of the following provisions of law by the Noticees.

Relevant extract of the provisions of SEBI Act, 1992:

"**Functions of Board.**

11. (1) Subject to the provisions of this Act, it shall be the duty of the Board to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit.

(2) Without prejudice to the generality of the foregoing provisions, the measurements referred to therein may provide for-

…….

(i) calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisations in the securities market;

(ia) calling for information and records from any person including any bank or any other authority or board or corporation established or constituted by or under any Central or State Act which, in the opinion of the Board, shall be relevant to any investigation or inquiry by the Board in respect of any transaction in securities;

……..

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

12A. No person shall directly or indirectly-

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

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

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

……..

Offences by companies.

27. (1) Where an offence has been committed by a company, every person who at the time the offence was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence.

(2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

Explanation : For the purposes of this section,- (a) "company" means any body corporate and includes a firm or other association of individuals; and (b) "director", in relation to a firm, means a partner in the firm……."

Relevant extract of provisions of SCRA, 1956:

"Conditions for listing.

21. Where securities are listed on the application of any person in any recognized stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange."

Relevant extract of the provisions of PFUTP Regulations, 2003:

"**3. Prohibition of certain dealings in securities**

No person shall directly or indirectly—

(a) ……..;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

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

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

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:-

……..

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

……..

(e) any act or omission amounting to manipulation of the price of a security;

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

…..

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

……"

Relevant extract of the provisions of LODR Regulations:

"**Principles governing disclosures and obligations.**

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

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

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

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

(d) ….....

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

(f) ……..

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

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

……

(f) Responsibilities of the board of directors:

The board of directors of the listed entity shall have the following responsibilities:

…….

(ii) Key functions of the board of directors-

……

(6) Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.

(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place,

in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

…

(iii) Other responsibilities:

….

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

……

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

…..

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

…..

Compliance Officer and his Obligations.

6. (1) A listed entity shall appoint a qualified company secretary as the compliance officer.

…….

Financial results.

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

……..

(d) The listed entity shall ensure that the limited review or audit reports submitted to the stock exchange(s) on a quarterly or annual basis are to be given only by an auditor who has subjected himself to the peer review process of Institute of Chartered Accountants of India and holds a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.

…….

(2) The approval and authentication of the financial results shall be done by listed entity in the following manner:

(a) The quarterly financial results submitted shall be approved by the board of directors: Provided that while placing the financial results before the board of directors, the chief executive officer and chief financial officer of the listed entity shall certify that the financial results do not contain any false or misleading statement or figures and do not omit any material fact which may make the statements or figures contained therein misleading

(3) The listed entity shall submit the financial results in the following manner:

(a) The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange within forty-five days of end of each quarter, other than the last quarter.

(4) …….

(5) For the purpose of this regulation, any reference to "quarterly/quarter" in case of listed entity which has listed their specified securities on SME Exchange shall be respectively read as "half yearly/half year" and the requirement of submitting 'year-to-date' financial results shall not be applicable for a listed entity which has listed their specified securities on SME Exchange.

Accounting Standards.

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

2. Before proceeding on the merit of the matter, it will be relevant to discuss the background of the present proceedings. SEBI received a letter no. F. No. 03/73/2017-CL-II dated June 9, 2017 from the Ministry of Corporate Affairs (hereinafter referred to as **"MCA"**) vide which MCA had annexed a list of 331 shell companies for initiating necessary action as per SEBI laws and regulations. MCA had also annexed the letter of Serious Fraud Investigation Office, dated May 23, 2017 which contained the list of shell companies along with their inputs. In respect of listed shell companies including JMD vide its letter dated August 7, 2017, SEBI placed trading restrictions on promoters/directors so that they do not exit these listed companies. SEBI vide the said letter dated August 7, 2017 also placed the scrip in the trade-to-trade category with limitation on the frequency of trade and imposed a limitation on the buyer by way of 200% deposit on the trade value, so as to alert them on trading in the scrip. Thereafter, BSE vide notice dated August 7, 2017 issued to all its market participants, initiated actions envisaged in the SEBI letter dated August 7, 2017 in respect of all the listed companies, as identified by MCA and communicated by SEBI, with effect from August 8, 2017. On August 09, 2017, SEBI further advised the Exchanges to submit a report after seeking auditor's certificate, from all such listed companies, providing the status of certain aspects of these companies like compliance with Companies Act, whether company is a going concern and its business model, status of compliance with listing requirements, etc.

3. Vide its letter dated August 18, 2017, JMD made a representation to SEBI, *inter alia*, submitting as under:

> (a) That SEBI is not justified in declaring the Company as suspected Shell Companies.
> (b) That SEBI has also not mentioned any reasoning on what basis the company is are being moved to GSM stage VI and mere suspicious cannot be the reason for taking such an action.
> (c) That SEBI has grossly misused its powers and violatedthe principles of natural justice. The directions passed are ex-parte directions and leads to only injustice.
> (d) That SEBI has failed to give any proper reasoning for passing such harsh and arbitrary directions.
> (e) That SEBI may keep doing their investigation and may take ample of time, but first revoke the directions and allow the scrip to be traded on exchange freely.
> (f) That said direction is harming the reputation of the company and also the investors are being affected by the said directions.
> (g) …….

4. In the meantime, aggrieved by the aforesaid letters/notice dated August 7, 2017 issued by SEBI and BSE, JMD filed an No. 202 of 2017 before Hon'ble Securities Appellate Tribunal, Mumbai (hereinafter referred to as "**SAT**"). Hon'ble SAT vide order dated August 24, 2017 directed the following:

> "2. As the appellant has already made a representation to SEBI against the said ex-parte order dated 7th August, 2017, Counsel for the appellant on instruction seeks to withdraw the appeal with liberty to pursue the representation filed before SEBI. Accordingly, we permit the appellant to withdraw the appeal with liberty to pursue the representation pending before SEBI.
>
> 3. SEBI is directed to dispose of the representation made by the appellant as expeditiously as possible and in any event within a period of three weeks from today. It is made clear that passing of any order on the representation made by the appellant would not preclude SEBI from further investing the matter and initiate appropriate proceedings if deemed fit."

5. Pursuant to above mentioned order passed by Hon'ble SAT, SEBI had called for various information/ explanation from JMD and after granting an opportunity of personal hearing to JMD, an interim order dated September 14, 2017 (hereinafter referred to as '**the interim order'**) came to be passed by Whole Time Member, SEBI, directing the following:

> "26……
> i. The trading in securities of JMD Ventures Ltd. shall be reverted to the status as it stood prior to issuance of letter dated August 7, 2017 by SEBI.
> ii. Exchange shall appoint an independent forensic auditor, inter alia, to verify:
> i. Misrepresentation including of financials and/or business of JMD Ventures Ltd., if any;

ii. Misuse of the books of accounts / funds, including facilitation of accommodation entries, if any.

iii. The promoters and directors in JMD Ventures Ltd are permitted only to buy the securities of JMD Ventures Ltd. The shares held by the promoters and directors in JMD Ventures Ltd shall not be allowed to be transferred for sale by the depositories.

iv. The other actions envisaged in SEBI's letter dated August 7, 2017 in para 1 (d), as may be applicable, and the consequential action taken by Stock Exchanges shall continue to have effect against JMD Ventures Ltd."

6. I note that in terms of the interim order, JMD was provided time of 30 days to file its reply/ objections to the interim order, if any, failing which, preliminary findings of the interim order and ad-interim directions contained therein were stipulated to stand confirmed against JMD automatically, without any further orders. Since no reply/ objections were filed by JMD, the ad-interim directions contained in the interim order, automatically stood confirmed against JMD. BSE had appointed CHOKSHI & CHOKSHI LLP. as the Forensic Auditor and the Forensic Audit Report (hereinafter also referred to as "**FAR**") was submitted to BSE by CHOKSHI & CHOKSHI LLP. Thereafter, based on the Forensic Audit Report which was forwarded by BSE to SEBI on June 17, 2019, SEBI carried out an investigation in the matter. Based on the findings of investigation, the matter was placed before me on Aptil 30, 2020 for approval of issuance of show cause notice and then was again placed before me on February 2, 2021 for granting a date for opportunity of hearing to the Noticees and passing a final order in the matter.

7. I shall now proceed to examine the allegations in the SCN and the contentions raised by the Noticees thereon. I note that allegations made in the SCN can be categorized as under:

A. Violations of provisions of LODR Regulations due to misrepresentation including of financials and misuse of funds/books of accounts;

B. Non-furnishing of information/ non-cooperation by JMD;

C. Violation of provisions of PFUTP Regulations, 2003.

In the following paras, all these have been dealt with my findings thereon.

A. Violations of provisions of LODR Regulations due to misrepresentation including of financials and misuse of funds/books of accounts:

8. **Re:** Non-disclosure/ misreporting of Related Party Transactions.

8.1. The SCN alleges that there was Non-disclosure/ misreporting by JMD of Related Party transactions amounting to INR 32.54 crores.

8.2. To the aforesaid allegation, the Replying Noticees have submitted as follows:

> "As per our understanding from the Forensic Audit Report, we understand that the above allegation has been made specifically for the transaction with Blue Circle Services Limited, which is considered to be a related party as per SEBI. We hereby like to submit that we do not deny the fact that Blue Circle Services Limited is a related party which is evident from the 32nd Annual Report (page no. 58) for the FY 2015-2016 (period under investigation for the Forensic Audit report as per SAT's order). The company has disclosed the fact that Blue Circle Services Limited is a Group Company or Company under same management. We would like to say and submit that there is no case of mis-representation as the dealing with M/s. Blue Circle Services Ltd. was of year 2013 and not during the investigation period. Infact, the payments of outstanding dues have been made during the investigation period. We are enclosing herewith copy of Ledger Statement of M/s. Blue Circle Services Ltd. from year 2013 till 31st March 2018 showing the details of transaction as well as details of payments made. (Refer Annexure "A" with reply letter) Page No:1 Hence, the submissions and disclosures made by us are true and correct and the opinion framed by the Forensic Auditor appears to be biased and wrong."

8.3. I note that the FAR has made the adverse observations with respect to the following related party transactions, since they were not disclosed by JMD in accordance with AS-18 in the annual financial statements:

8.3.1. JMD has not disclosed transaction between JMD Ventures Ltd & Prince Tradecom Ltd.

8.3.2. JMD has not disclosed transaction between Nirnidhi Consultant Pvt. Ltd. & JMD Ventures Ltd.

8.3.3. JMD has not disclosed the transaction between JMD Ventures Ltd & JMD Broadcasting Ltd.

8.3.4. JMD has not disclosed transaction between PS IT Infrastructure Ltd. & JMD Ventures Ltd.

8.4. I note that for the financial year 2016-17, the FAR at page 42, notes that JMD had related party transaction with Prince Tradecom Ltd. However, on perusal of the FAR, I find that JMD had purchased shares of Prince Tradecom Ltd, from Antratma Tradelink Pvt Ltd. Thus, I find that JMD has not undertaken any transaction with the purported related party i.e. Prince Tradecom Ltd. Rather the transaction was done with Antratma Tradelink Pvt Ltd, which is not alleged to be a related party of JMD. Similarly, at page 51 of FAR, the forensic auditor notes that JMD had related party transaction with JMD Broadcasting Ltd. However, on perusal of the FAR, I find that JMD had sold shares of JMD Broadcasting Ltd., to Nirnidhi Consultant Pvt. Ltd. Thus, I find that JMD has not undertaken any transaction with the related party i.e. JMD Broadcasting Ltd. Rather the transaction was done with Nirnidhi Consultant Pvt. Ltd., which is also a related party of JMD, owing to the common director – Noticee no. 3. I note that Noticee no. 3 was the director on the board of Nirnidhi Consultant Pvt. Ltd. and JMD. Thus, I find that Nirnidhi Consultant Pvt. Ltd. was a related party to JMD in terms of Section 2(76)(iv) of Companies Act, 2013 read with Regulation 2(1)(zb) of LODR Regulations. Further, from the FAR, I note that JMD had entered into a related party transaction for purchase of unquoted shares of "Shree Ganesh Sugar Mills Pvt. Ltd" as on March 31, 2018 amounting to Rs. 0.73 Crs (73,000 Shares), from Nirnidhi Consultant Pvt. Ltd., and sale of unquoted shares of "JMD Broadcasting Pvt. Ltd." amounting to Rs. 1.10 Crs (52,200 shares at a price of Rs. 210.73/- per share) as on March 31, 2018 to Nirnidhi Consultant Pvt. Ltd.

8.5. With respect to the aforesaid related party transactions between Nirnidhi Consultant Pvt. Ltd. and JMD, I note that JMD was required to disclose the aforesaid related party transaction in the Board's Report in Form AOC-2 in accordance with Section 134(3)(h) of Companies Act, 2013 read with Rule 8(2) of Companies (Accounts) Rules, 2014. However, from the Annual Report of FY 2017-18, I find that no such disclosure has been made by JMD in the Board's Report/ Director's Report section of the Annual Report of JMD for FY 2017-18,

which is in direct violation of Regulation 34(3) and 4(1)(g) of LODR Regulations. I also note that, in accordance with AS 18 and Ind AS 24, JMD was required to disclose the aforesaid related party transactions in the 'notes to accounts' section of the Annual Report for FY 2017-18. However, I find that no such disclosure has been made by JMD. Thus, by not complying with the disclosure requirements of AS 18/ Ind AS 24, I find that JMD has violated Regulation 48 and Regulation 33(1)(c) of LODR Regulations.

8.6. I note that the FAR has identified PS IT Infrastructure Ltd., as a related party of JMD, owing to the fact that Noticee no. 4 was a common director. However, I note that PS IT Infrastructure Ltd. is a public limited company and in accordance with Section 2(76)(v) of the Companies Act, 2013, in order for PS IT Infrastructure Ltd. to be a related party of JMD, it is also important that Noticee no. 4 holds more than 2% paid -up capital of PS IT Infrastructure Ltd. However, I find that no such material is available on record to show that Noticee no. 4 holds more than 2% paid-up share capital in PS IT Infrastructure Ltd. Thus, I find that findings in FAR that PS IT Infrastructure Ltd., is the related party of JMD, does not stand proved. Therefore, no adverse inference can be drawn against JMD on the basis of this observation.

8.7. With regard to the transactions with M/s. Blue Circle Services Ltd., Noticee no. 1 has acknowledged that M/s. Blue Circle Services Ltd was a related party of JMD, however according to Noticee no. 1 the said transaction did not warrant disclosure in FY 2015-16 since the dealing started in 2013 and the balance outstanding was only paid in FY 2015-16. I note that such a contention of Noticee no. 1 may not be correct. In this regard, Para 23 of AS 18 provides as under:

> 23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:
>
> (i) the name of the transacting related party;
> (ii) a description of the relationship between the parties;
> (iii) a description of the nature of transactions; volume of the transactions either as an amount or as an appropriate proportion;

(iv) any other elements of the related party transactions necessary for an understanding of the financial statements;
(v) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date;
(vi) ……

From a reading of the aforesaid para of AS 18, it is clear that disclosure is called for all transactions with related parties during the existence of the relationship. Thus, the purported repayment of dues by M/s. Blue Circle Services Ltd. in the FY 2015-16, ought to have formed part of the disclosures in FY 2015-16. From the Annual Report 2015-16, I find that, JMD has failed to disclose the description of the nature of the transaction with the related party and the amount outstanding at the balance sheet date. I find that the amount of transaction with M/s. Blue Circle Services Ltd., as mentioned by JMD in the Annual Report 2015-16 is also incorrect. According to the Ledger furnished by JMD with its reply, the amount of transaction with Blue Circle Services Ltd. during FY 2015-16 is Rs1,10,00,000/-, but the amount mentioned in Annual Report is Rs. 64,36,000/-. Thus, the disclosure of related party transaction with M/s. Blue Circle Services Ltd., as mentioned in the notes to financial statement in the Annual Report 2015-16 is false. I find that JMD has violated Regulation 48 and Regulation 33(1)(c) of LODR Regulations. With respect to Annual Report 2015-16, I also find that JMD has failed to disclose the related party transactions in the Board's Report in Form AOC-2 in accordance with Section 134(3)(h) of Companies Act, 2013 read with Rule 8(2) of Companies (Accounts) Rules, 2014. Therefore, I note that JMD has violated Regulation 34(3) and Regulation 4(1)(g) of LODR Regulations.

9. **Re**: Lack of supporting documents for advances given for properties amounting to INR 11.49 crores of which only MOU were provided for advance of INR 2.5 Crore.

9.1. The interim order dated September 14, 2017, makes the following observation in this regard:

"*With respect to "Advances for Properties" amounting to Rs. 11.49 crores in the Financial Statement for the year ended March 31, 2016 (Refer Note 2.12 – Annual Report 2015-16 and Annex 4), the company has given supporting MOU only with respect to the advances amounting*

to Rs. 2.5 crore. These advances were made around 2010-11 and 2012-13 as per the MOU but the properties has not yet been received by the company. For the balance advances of Rs. 8.99 crore, the company has provided neither the supporting MOUs nor the bank statement showing the flow of funds. The failure on the part of the company to provide documentary support indicates that the company is not able to establish the genuineness of those transactions."

9.2. In the present proceedings, in respect of the aforesaid observations in the interim order, the Replying Noticees have submitted as follows:

> With respect to the above query, we hereby submit that the advances/payments of INR 11.49 Crores towards purchases of properties are purely genuine transactions and are not mere book / accommodation entries. These payments have been done against purchase of properties to various parties under various agreements which grossly states that either profit will be shared at a ratio of 40:60 upon sale of the property and in case the property remains unsold with in a period of 10 years from the date of payment, the advances shall be returned by the advances @ 9.00% p.a. on the advance amount from the date of payment. During the course of the forensic audit, all the necessary documents, details and explanations were provided for the advances made against properties. The forensic auditor has grossly erred in making their observation and making remarks that the purchase and sale transactions are non-genuine in nature. In view of the above, we deny the above allegations made on the company and submit that the forensic audit report issued by the forensic auditor is biased and wrong.

9.3. From the observations at Page 34 of FAR, I note that JMD had not furnished any response to the queries raised by the forensic auditor on this observation in the interim order. I note that the Replying Noticees have chose to reply to this allegation for the first time only in the present proceedings. I note that while JMD has contested that all the documents relating to the advances for properties and the explanations thereof have been provided to the forensic auditor, however, I do not find any proof being furnished by JMD in this regard. I note that JMD has not furnished any proof of email or other communication with the forensic auditor showing the explanation being offered by it to the forensic auditor, nor do I find any proof of delivery of documents to the forensic auditor. On the contrary, I find that the FAR has made specific remark at Page 34 about the failure of JMD to furnish any response to the queries on this subject. Thus, I find that the assertions being made by the Replying Noticees are mere bald statements without any supporting proof. I also note that the Replying Noticees, while replying to the present SCN have not produced any supporting evidence in the form of MoU/ agreement copy, to establish the claim that they were genuine advance towards

purchase of properties. In the absence of any supporting documents and the failure of the Replying Noticees to furnish any proof, I find that observations made in the FAR that the amount of 'Advance for Properties' being shown as part of 'Short Term Loans & Advances" in the 'Current Assets' of the financial statements of JMD for the FY 2015-16, 2016-17 and 2017-18, were misrepresented, is correct. By the aforesaid misrepresentation in the financial statement of the Company, JMD has failed to comply with the mandate contained in para 15 of IndAS1 and para 16 of AS 1 and thereby violated provisions of Regulation 33(1)(c) and Regulation 48 of LODR Regulations.

10. **Re**: Deviation from main business activity i.e. advancing more than 50% of total asset base in form of loans and advances without taking approval from RBI.

10.1. The FAR has made the following observation:

As per the RBI circular dated July 1, 2015 para 6, a company which is registered under Companies Act 1956 get themselves registered as Non-Banking Financial Company (NBFC) if company fulfils following both the criteria;

i) Company having financial assets constitute more than 50 per cent of the total assets and
ii) Income from financial assets constitute more than 50 per cent of the gross income.

On Scrutiny of the Annual Report for FY 17-18 it was observed that the company had financial assets more than 50 per cent of the total assets & gross income from the said financial assets are more than 50 per cent. Following are the details of the same:

Nature of financial Income	Amounts (F.Y. 2016-17)	Amounts (F.Y. 2017-18)
Sales of Quoted Shares	86,19,709	23,15,921
Sales Of Unquoted Shares	10,09,59,995	30,86,18,500
Total Financial Income	**10,95,79,705**	**31,09,34,421**
Total Income	**61,24,33,605**	**38,40,08,129**

Nature of financial assets	Amounts (F.Y. 2016- 17)	Amounts (F.Y. 2017-18)
Loans & Advances Given	20,68,97,583	19,85,90,694.80
Stock in trade on Unquoted Shares	3,35,86,860	7,34,11,460
Stock of Quoted Shares	48,32,341	55,34,772
Total Financial Assets	**24,53,16,784**	**27,75,36,927**
Total Assets	**74,13,37,073**	**37,42,61,502**

Sr. No	Particular	F.Y. 17-18 Amount (Rs. in Crs)	Percentage in FY 17-18	FY 16-17 Amount (Rs. in Crs.)	Percentage in FY 16-17
1.	Financial Assets/Total Assets	27.75/37.43	**74.13%**	24.53/74.13	32.93%
2.	Income from Financial Assets/Total Income	31.09/38.40	**80.96%**	10.96/61.24	17.90%

10.2. The Replying Noticees have submitted as follows:

We hereby deny to the fact that the company has deviated from its main business activity by advancing more than 50% of the total asset base in form of loans and advances. To justify our submission please go through the table below:

INR in Crores

Particulars	FY 2015-16	FY 2016-17	FY 2017-18
Total Asset Base	171.96	74.13	37.43
Loans & Advances	3.68	3.57	3.46
Loans & Advances(%)	2.14%	4.82%	9.24%
Operating Assets	168.28	70.56	33.97
Operating Assets (%)	97.86%	95.18%	90.76%

The above date and figures have been taken from the annual reports published and submitted by the exchange for the respective financial years. The said Annual Reports are also available in the public domains. As evident from above, it is clear that loans advanced does not form a substantial part of the total asset base of the company. The forensic auditor has grossly erred in observing and making remarks with respect to the subject point

RBI approval is required for instance where the financial assets of the company form more than 50% of the total asset base of the company and Income from financial activities are more than 50% of the total income of the company. In our case, as evident from the annual reports submitted, it is clearly evident that neither the financial assets form more than 50% of the total asset base of the company nor income from financial activities form more than 50% of the total income of the company. Hence, the requirement or question approval from RBI does not come into picture and there is no non-compliance by the company.

In view of the above, we deny any allegations made on the company with respect to the deviations from the main business activity and submit that the report of the Forensic Auditor is biased and wrong.

10.3. I note that while calculating the Loans and Advances, Noticee no. 1 has only included the 'Inter-Corporate Deposits' as part of 'Loans and Advances'.

However, the FAR has included the 'Advance for Properties' also as part of 'Loans and Advances'. As discussed in the preceding paragraph, I note that JMD has been found to have misrepresented the amount of 'Advance for Properties' in the FY 2017-18. From the financials of JMD, I find that the 'Advances for Properties' as on March 31, 2018 amounts to Rs.11.15 Crores. Thus, I find that when the amount of 'Advance for Properties' itself is misrepresented then the inclusion of ₹ 11.15 Crores as part of 'Financial Assets' for calculating percentage of Total Financial Assets to Total Assets of JMD, is incorrect. I note that when the financial assets constitute less than 50% of the total assets, JMD was not required to seek registration as NBFC, in terms of RBI Circular dated July 01, 2015. Therefore, observations made in FAR in this regard, are not correct.

11. **Re:** Reporting of non-genuine Inter-Corporate Deposit made to Shree Metaliks Limited amounting to INR 3.45 crores.

11.1. SEBI interim order dated September 14, 2017 has observed as under:

> "It is observed that the company has made an Inter-Corporate Deposit worth Rs. 4 crore to Shree Metaliks Limited as per agreement dated May 17, 2010. Though the company has provided the letter from Shree Metaliks Pvt. Ltd. requesting disbursal of Rs. 3 crore and letter of JMD Ventures Ltd. confirming disbursal as a supporting document, however no information regarding balance of Rs. 1 crore is provided by the company. "

11.2. In the present proceedings, in respect of the aforesaid observations made in the interim order, the Replying Noticees have submitted as follows:

> "We categorically deny that Inter-Corporate Deposit made to Shree Metalliks Limited amounting to INR 3.45 crores are not genuine. Our company had made an Inter-Corporate Deposit worth INR 4.00 crores to Shree Metalliks Limited as per agreement dated 4th July 2010. Our company has already received partial funds from Shree Metalliks for an amount of INR 1 crore only on 19th October 2011. The same has been considered in the forensic audit report & balance 3 crore principal amount is still receivable. In regard to the information about balance INR 45 lacs, the amount has been charged as interest upto a certain period. We would like to inform that INR 10 lacs has been received by us against recoveries in the FY 2019-20, as per the ledger attached. During the course of the forensic audit, all the necessary documents, deta ils and explanations were provided for the Inter Corporate Deposit made to Shree Metalliks Limited. The forensic auditor has grossly erred in making their observation and making remarks that the purchase and sale transactions are non-genuine in nature. We are enclosing herewith copy of ledger statement for your verification and records.(Refer Annexure "G" with reply letter) Pg No: 155-164. In view of the above, we deny the above allegations made on the company and submit that the forensic audit report issued by the forensic auditor is biased and wrong."

11.3. From the observations at Page 34 of FAR, I note that JMD had not furnished any response to the queries raised by the forensic auditor on this observation of the interim order. I note that the Replying Noticees have chose to reply to this allegation for the first time only in the present proceedings. According to the Replying Noticees, Rs. 45 Lakh has been charged as interest on the Loan A/c. of Shree Metalliks Limited for a certain period. I note that the Replying Noticees have failed to certainly state as upto what period the interest has been charged and not been charged. From the Annual Report of 2015-16, I find that interest at the rate of 9% per annum is charged by JMD on the loan account of Shree Metalliks Ltd. By this rate, an interest of approx. Rs. 2.16 Crores upto 2018, could have been earned as interest by JMD from Shree Metalliks, however, no such income has been recognized by JMD from Shree Metalliks. I note that in accordance with para 13 of AS 9 (Revenue Recognition) "*Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividends should only be recognised when no significant uncertainty as to measurability or collectability exists*." Further, para 14 of AS 9 reads as "*In addition to the disclosures required by Accounting Standard 1 on 'Disclosure of Accounting Policies' (AS 1), an enterprise should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties."* Thus, I note that if interest income of loan account of Shree Metalliks, has not been recognized by JMD then there ought to have been a disclosure in this regard in the financial statements, however, I do not find any such disclosures with respect to the same in the financial statements of JMD for the FY 2015-16, FY 2016-17 and FY 2017-18. Also, at the same time, I do not find any interest being charged by JMD for the Inter Corporate Deposit to Shree Metalliks Ltd. Therefore, I find that the balance of Inter Corporate Deposit (which includes the loans given to Shree Metalliks Ltd.) shown by JMD in the financial statements for FY 2015-16, 2016-17 and 2017-18, as unreliable. By the aforesaid misrepresentation in the financial statement of the Company, JMD has failed to comply with the mandate contained in para 15 of IndAS1 and para 16 of AS 1 and thereby violated provisions of Reg. 33(1)(c) and Reg. 48 of LODR Regulations

12. **Re:** Non-submission of supporting documents for investments in unquoted equity shares leading to misrepresentation and overstating of investments.

12.1. With regards to this allegation, the FAR has made the following detailed observations:

Auditor's Remarks:-
F.Y. 2015-16:-
On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has sold quoted & unquoted shares amounting to Rs. 5.35 Crs. On further scrutiny of books of accounts and based on narration mentioned, it was observed that the company had received money against sale of quoted & unquoted shares amounting to Rs.2.93 Crs. However, the balance sales amount Rs. 2.42 Crs is neither reflected as funds received nor shown as receivable against those parties neither in the same financial year, nor in the subsequent financial year. Detailed observations are as follows:-

Following are the list of sales of unquoted shares taken place during the financial year as per the tally system:

Date of Sale	Party Name	Name of share	Amount (Crs.)	Type of Share
04.12.2015	Ashtvinayak Stock broking Ltd	Easter (29,202 Sh)	0.29	Quoted
14.01.2016	Ashtvinayak Stock broking Ltd	RPP Infra Project (2,01,557 Sh)	2.35	Quoted
02.02.2016	Antratma Trade Link Pvt. Ltd.	Santown Corporation (5,00,000 Sh)	0.03	Quoted
17.02.2016	Ashtvinayak Stock broking Ltd	L & T Finance (5,000 Sh)	0.03	Quoted
01.04.2015	Ultimate Guru Music Pvt. Ltd.	Bajao Music Pvt Ltd (1,50,727 Sh)	0.75	Unquoted
01.04.2015	Suman Kumar	Bajao Music Pvt Ltd (1,50,727 Sh)	0.75	Unquoted
27.06.2015	Antaratma Tradelink Pvt. Ltd.	JMD Sounds Ltd (71,000 Sh)	0.89	Unquoted
04.09.2015	Amber Tradecom Pvt. Ltd.	Sargam Vintrade Pvt. Ltd. (13,500 Sh)	0.27	Unquoted

Antratma Tradelink Pvt. Ltd.
On scrutiny of the books of accounts and based on the narrations mentioned in the books it is observed that the company had sold their unquoted shares of JMD Sounds Ltd. as on 27.06.2015 amounting to Rs. 0.8875 Crs (71,000 Sh @ 125) and quoted shares of "Santown Corporation"

amounting to Rs. 0.0265 Crs (5,00,000 sh @ 0.53) as on 02.02.2016 to "Antratma Tradelink Pvt Ltd". Further the company had passed a journal entry by debiting purchase of shares of "Satabdi Tradelink Ltd" as on 02.02.2016 amounting to Rs. 0.914 Crs (9,14,000 sh @ 10). However, the said sale transaction does not show any cash flow in to the company. In the books of accounts 2015-16 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under:

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
27.06.2015	JMD Sounds Ltd	71,000 Sh @ 125	0.89	02.02.2016	Satabdi Tradelink Ltd. (9,14,000 Sh @ 10)	0.91
02.02.2016	Santown Corporation	5,00,00 sh @ 0.53	0.03			

…….

In the absence of any cash flows in above share transactions being undertaken in the ledger account of **Antratma Tradelink Pvt. Ltd**, and further information of background as available in public domain as relied upon indicated, *prima facie,* these transactions to be of questionable practice followed by the company. Management responses were sought but not available.

Ultimate Guru Music Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 0.75 Crs of "Ultimate Guru Music Pvt. Ltd.". Further, company has passed journal entry by crediting sale of unquoted shares of "Bajaao Music Pvt. Ltd. amounting to Rs. 0.75 Crs (1,50,727 sh @ 50) as on April 01, 2015. However, the said sale transaction does not show any cash flow in the company. The books of accounts 2015-16 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
01.04.2015	Bajaao Music Pvt. Ltd.	1,50,727 Sh @ 50	0.75			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Suman Kumar

On scrutiny of the books of accounts and based on the narrations mentioned in the books it is observed that "Suman Kumar" is debtor of the company. However, company has opening credit balance amounting to Rs.0.75 Crs as on , April 01, 2015. Further, the company has passed journal entry by crediting selling unquoted shares of "Bajaao Music Pvt Ltd (1,50,727 sh @ 50) amounting to Rs. 0.75 Crs as on April 01, 2015. However, the said sale transaction does not show any cash flow in the company. In the books of accounts 2015-16 certain Journal entries were

observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
01.04.2015	Bajaao Music Pvt. Ltd.	1,50,727 Sh @ 50	0.75			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

F.Y. 2016-17:-

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has sold quoted & unquoted shares amounting to Rs. 10.96 Crs. On further scrutiny of books of accounts and based on narration mentioned, it was observed that the company had received money against sale of quoted & unquoted shares amounting to Rs.0.82 Crs. However, balance sales amount Rs. 10.41 Crs is neither funds received nor shown as receivable against those parties neither in the same financial year nor in the subsequent financial year. Detailed observation as follows:-

Following are the list of sales taken place during the financial year

Date of Sale	Party Name	Name of share	Amount (Crs.)	Type
01.04.2016	Antratma Trade Link Pvt. Ltd.	D B International Ltd (72,024 Sh)	0.53	Quoted
01.04.2016	Antratma Trade Link Pvt. Ltd.	SREI International Ltd (500 Sh)	0.005	Quoted
01.04.2016	Antratma Trade Link Pvt. Ltd.	Bhaushan Steel Ltd (1000 Sh)	0.04	Quoted
01.04.2016	Antratma Trade Link Pvt. Ltd.	Ashok Lelend (5,000 Sh)	0.01	Quoted
07.04.2016	Ashtvinayak Stock broking Ltd.	Himachal Furiti (1,00,000 Sh)	0.18	Quoted
30.12.2016	Ashtvinayak Stock broking Ltd.	Shipping Corporation (7,500 Sh)	0.04	Quoted
06.01.2017	Ashtvinayak Stock broking Ltd.	K M Sugar (16,000 Sh)	0.05	Quoted
01.04.2016	Rakesh S. Kathothia	Bajao Music Pvt. Ltd. (2,10,000 Sh)	0.40	Unquoted
02.01.2017	Tulip Telecom Ltd.	JMD Sounds Ltd (3,16,950 Sh)	9.35	Unquoted
17.03.2017	I.M. Gandhi Family Trust	Details not mentioned in narration	0.35	Unquoted

Antratma Tradelink Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books it is observed that the company has passed journal entry by selling quoted shares of "DB International Ltd" as on April 01, 2016 amounting to Rs. 0.53 Crs (72,024 Sh), "SREI International Ltd" as on April 01, 2016 amounting to Rs. 0.005 Crs (500 Sh), " Bhushan Steel Ltd" as on April 01, 2016 amounting to Rs. 0.04 Crs (1000 Sh) & "Ashok Leyland" as on April 01, 2016 amounting to Rs. 0.01 Crs (5000 Sh) to "Antratma Tradelink Pvt Ltd". Further the company has passed journal

entry by debiting purchase of shares of "Prince Tradecom Ltd" as on March 31, 2017 amounting to Rs. 0.59 Crs (5,87,520 sh @ 10). However, the said sale transaction does not show any cash flow in the company.

The books of accounts 2016-17 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sales	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
01.04.2015	D B International Ltd		0.53	31.03.2017	Prince Tradecom Ltd. (5,87,520 @ 10)	0.59
01.04.2015	SREI International Ltd.		0.005			
01.04.2016	Bhushan Steel Ltd. (1,000 Sh)	1,000 Sh	0.04			
01.04.2016	Ashok Leyland		0.01			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further, the above set off entries did not have any cash flow impacts in the books.

Ashtvinayak Stock Broking Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books it is observed that the company has passed journal entry by selling quoted shares of "Shipping Corporation" amounting to Rs. 0.04 Crs (7500 sh @ 58.11) as on December 30, 2016 & "K M Sugar" amounting to Rs. 0.04 Crs (16,000 sh @ 29.12) . Further, the company has passed journal entry by debiting purchase of shares of "KM Sugar" as on December 30, 2016 amounting to Rs. 0.04 Crs (16,000 sh @ 29.12), as on January 05, 2017 amounting to Rs. 0.01 Crs (4,650 Sh @ 29.12) and as on January 10, 2017 amounting to Rs. 0.03 Crs (10,050 Sh @ 29.12) However, the said sale transaction does not show any cash flow in the company.

In the books of accounts 2016-17 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sales	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
30.12.0216	Shipping Corporation	7,500 Sh @ 58.11	0.04	30.12.2016	K M Sugar (16,000 Sh @ 29.12)	0.04
06.01.2017	K M Sugar	16,000 Sh @ 29.12	0.04	05.01.2017	K M Sugar (4,650 Sh @ 29.12)	0.01
				10.01.2017	K M Sugar (1,00,50 Sh @ 29.12)	0.03

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Tulip Telecom Ltd:-

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs.9.35 Crs of "Tulip Telecom Ltd". Further, company has passed journal entry by crediting sale of unquoted shares of "JMD Sounds Ltd" amounting to Rs. 9.35 Crs (3,16,950 sh @ 295.19) as on January 02, 2017. However, the said sale transaction does not show any cash flow in the company.

The books of accounts 2016-17 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
02.01.2016	JMD Sounds Ltd.	3,16,950 Sh @ 295.19	9.35			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

F.Y. 2017-18:-

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has sold quoted & unquoted shares amounting to Rs. 31.09 Crs. On further scrutiny of books of accounts and based on narration mentioned, it was observed that the company had received money against sale of quoted & unquoted shares amounting to Rs.1.46 Crs. However, the balance sales amount Rs. 29.63 Crs is neither funds received nor shown as receivable against those parties neither in the same financial year nor in the subsequent financial year. Detailed observation as follows:-

Following are the list of sales taken place during the financial year

Date of Sale	Party Name	Name of share	Amount (Crs.)	Type
26.09.2017	Prime Capital Market Ltd.**	K M Sugar Mills Ltd (14,700 Sh)	0.03	Quoted
26.09.2017	Prime Capital Market Ltd.**	Kavveri Tele Com (5,000 Sh)	0.005	Quoted
26.09.2017	Prime Capital Market Ltd.**	Kothati Petro (25,000 Sh)	0.018	Quoted
06.10.2017	Investor Service	Mideast Integrated (25,000 Sh)	0.06	Quoted
04.01.2017	Investor Service	Mideast Integrated (25,000 Sh)	0.11	Quoted
02.04.2017	Gulistan Vanijya Pvt. Ltd.	Muskan Jute Mills Pvt Ltd (50,000 Sh)	0.60	Unquoted
05.05.2017	Overgrow Commosale Pvt. Ltd.	Jaya Securities Pvt. Ltd. (2835 Sh)	0.03	Unquoted

Date of Sale	Party Name	Name of share	Amount (Crs.)	Type
05.05.2017	Overgrow Commosale Pvt. Ltd.	Sargam Vintrade Pvt. Ltd. (15,320 Sh)	0.31	Unquoted
27.02.2018	Aditya Infomatique (India) Pvt. Ltd.	Neel Kanth Commodities Pvt. Ltd. (4,090 Sh)	0.20	Unquoted
27.02.2018	IT Source (India) Tech Pvt. Ltd	Khazana Tradelink Pvt. Ltd. (1,09,750 Sh)	0.88	Unquoted
05.03.2018	Areva Infosystem Pvt. Ltd.	Neel Kanth Commodities Pvt. Ltd. (46,330 Sh)	2.32	Unquoted
05.03.2018	Blue Sea Commodities	Neel Kanth Commodities Pvt. Ltd. (9,180 Sh)	0.46	Unquoted
15.03.2018	Ducon Technologies Pvt. Ltd.	Gold Medoes Exports Pvt. Ltd.	1.18	Unquoted
15.03.2018	Ducon Technologies Pvt. Ltd.	Forever Flourishing Fin & Inv Pvt. Ltd.	1.50	Unquoted
27.03.2018	Mobi Cube Technologies Pvt. Ltd.	Khazana Tradelink Pvt. Ltd. (86,875 Sh)	0.70	Unquoted
27.03.2018	Mobi Cube Technologies Pvt. Ltd.	Golden Medoes Exports Pvt. Ltd. (86,875 Sh)	0.63	Unquoted
31.03.2018	Nirnidhi Consultaant Pvt. Ltd.	JMD Broadcasting Pvt. Ltd. (52,200 Sh)	1.10	Unquoted
31.03.2018	Overgrow Commosale Pvt. Ltd.	Shree Ganesh Sugar Mills Pvt. Ltd. (2,500 Sh)	0.03	Unquoted
31.03.2018	Softzon Infotech Pvt. Ltd.	Khazana Tradelink Pvt. Ltd. (29,625 Sh)	0.24	Unquoted
31.03.2018	Softzon Infotech Pvt. Ltd.	JMD Sounds Ltd. (2,38,514 Sh)	53	Unquoted
31.03.2018	Softzon Infotech Pvt. Ltd.	JMD Brod Casting Pvt. Ltd. (1,81,100 Sh)	3.82	Unquoted
31.03.2018	PS IT Infrastructure & Services Ltd**	JMD Sounds Ltd. (4,00,000 Sh)	0.88	Unquoted
31.03.2018	PS IT Infrastructure & Services Ltd**	Satabdi Tradelink Pvt Ltd (9,14,000 Sh)	0.91	Unquoted
31.03.2018	Atlas Computer Pvt.Ltd.	JMD BroadCasting Pvt.Ltd. (23,366 Sh)	0.49	Unquoted
31.03.2018	PS IT Infrastructure & Services Ltd**	Prince Tradecom Ltd (5,87,520 Sh)	0.59	Unquoted
31.03.2018	PS IT Infrastructure & Services Ltd**	Apporva Exports Pvt. Ltd.	0.10	Unquoted
31.03.2018	PS IT Infrastructure & Services Ltd**	Shree Ganesh Mills Pvt. Ltd. (70,500 Sh)	0.71	Unquoted

Aditya Informatique (India) Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 3.74 Crs of "Aditya Infomatique (India) Pvt. Ltd.". Further, company has passed journal entry by crediting sale of unquoted shares of "Neelkanth Commodities Pvt. Ltd." amounting to Rs. 0.20 Crs (4090 sh @ 500) as on February 27, 2018. However, the said sale transaction did not result into any cash flow in the company.

In the books of accounts 2017-18 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
27.02.2018	NeelKanth Commodities Pvt. Ltd.	4,090 Sh @ 500	0.20			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

IT Source (India) Tech Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 47.74 Lacs of "IT Source (India) Tech Pvt. Ltd.". Further, company has passed journal entry by crediting sale of unquoted shares of "Khazana Tradelink Pvt. Ltd." amounting to Rs. 0.88 Crs (1,09,750 sh @ 80) as on February 27,2018. However, the said sale transaction did not result into any cash flow in the company.

In the books of accounts 2017-18 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
27.02.2018	Khazana Tradelink Pvt. Ltd.	1,09,750 Sh @ 80	0.88			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Areva Infosystems Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 3.16 Crs of "Areva Infosystem Pvt. Ltd.". Further, company has passed journal entry by crediting sale of unquoted shares of "Neelkanth Commodities Pvt. Ltd." amounting to Rs. 2.32 Crs (46,330 sh @ 500) as on March 05, 2018. However, the said sale transaction does not show any cash flow in the company.

In the books of accounts 2017-18 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
05.03.2018	Neelkanth Commodities Pvt. Ltd.	46,330 Sh @ 500	2.32			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Blue Sea Commodities

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 0.46 Crs of "Blue Sea Commodities." Further, company has passed journal entry by crediting sale of unquoted shares of "Neelkanth Commodities Pvt. Ltd." amounting to Rs. 0.46 Crs (9,180 sh @ 500) as on March 05, 2018. However, the said sale transaction does not show any cash flow in the company.

In the books of accounts 2017-18 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs.)	Date of Purchase	Name of Script	Amount (Crs.)
05.03.2018	Neelkanth Commodities Pvt. Ltd.	9,180 Sh @ 500	0.46			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Ducon Technologies Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 2.68 Crs of "Duccon Technologies Pvt. Ltd.". Further, the company has passed journal entry by crediting sale of unquoted shares of "Gold Medoes Exoprts Pvt. Ltd." amounting to Rs. 1.18 Crs (11,750 sh @ 1000) & "Forever Flourising Fin & Inv Pvt. Ltd. amounting to Rs. 1.50 Crs (15,000 sh @ 1000) as on March 15, 2018. However, the said sale transaction does not show any cash flow in the company.

In the books of accounts 2017-18 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
15.03.2018	Golden Medoes Exports Pvt. Ltd.	11,750 Sh @ 1000	1.18			
15.03.2018	Forever Flourising Fin & Inv Pvt. Ltd.	15,000 Sh @ 1000	1.50			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Mobicube Technologies Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 1.32 Crs of "Mobicube Technologies Pvt. Ltd.". Further, the company has passed journal entry by crediting sale of unquoted shares of "Khazana Tradelink Pvt. Ltd." amounting to Rs. 0.70 Crs (86,875 sh @ 80) & "Golden Medoes Exports Pvt. Ltd. amounting to Rs. 0.63 Crs (86,875 sh @ 1000) as on March 27, 2018. However, the said sale transaction did not result into any cash flow in the company.

In the books of accounts 2017-18 certain Journal entries were observed which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under; details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
27.03.2018	Khazana Tradelink Pvt. Ltd.	86,875 Sh @ 80	0.70			
27.03.2018	Golden Medoes Exports Pvt. Ltd.	86,875 Sh @ 1000	0.63			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Nirnidhi Consultant Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has passed journal entry by crediting sale of unquoted shares of "JMD Broadcasting Pvt. Ltd." amounting to Rs. 1.10 Crs (52,200 sh @ 210.73) as on March 31, 2018. Further, the company has passed journal entry by debiting purchase of shares of "Shree Ganesh Sugar Mills Pvt. Ltd." as on March 31, 2018 amounting to Rs.0.73 Crs (73,000 sh @ 100).

In the books of accounts 2017-18 identified certain Journal entries which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Scrip	Amount (Crs)
31.03.2018	JMD Broadcasting Pvt. Ltd.	52,200 Sh @ 210.73	1.10	31.03.2018	Shree Ganesh Sugar Mills Pvt. Ltd. (73,000 Sh @ 100)	0.73

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Based on above transactions prima facie it appears such transactions of sale/purchase of shares was merely by passing journal entry, and did not indicate to have any cash inflows.

Softzone Imotech Pvt. Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 9.53 Crs of "Softzon Imfotech Pvt. Ltd.". Further, company has passed three journal entries by crediting sale of unquoted shares of "Khazana Tradelink Pvt. Ltd." amounting to Rs. 23.70 Lacs (29,625 sh @ 80) , "JMD Sound Ltd" amounting to Rs. 5.30 Crs (2,38,514 @ 221) & "JMD Broadcasting Pvt. Ltd." amounting to Rs. 3.81 Crs (1,81,100 sh) as on March 31, 2018. However, the said sale transaction does not show any cash flow in the company.

In the books of accounts 2017-18 identified certain Journal entries which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Purchase	Name of Script	Amount (Crs)
31.03.2018	Khazana Tradelink Pvt. Ltd.	29,625 sh @ 80	0.24			
31.03.2018	JMD Sounds Ltd.	2,38,514 Sh @ 221	5.3			
31.03.2018	JMD Broadcasting Pvt. Ltd.	1,81,100 Sh	3.82			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

PS IT Infrastructure & Services Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, company has opening credit balance amounting to Rs. 0.05 Crs of "PS IT infrastructure & Services Pvt. Ltd.". Further, company has passed five journal entries by crediting sale of unquoted shares of "JMD Sounds Ltd." amounting to Rs. 8.80 Crs (4,00,000 sh @ 220) , "Satabdi Tradelink Pvt. Ltd." amounting to Rs. 0.91 Crs (9,14,000 @ 10) , "Price Tradecom Ltd." amounting to Rs. 0.59 Crs (5,87,520 @ 10), "Aprova Exports Pvt. Ltd." amounting to Rs. 0.10 Crs (25,000 @ 40) & "Shree Ganesh Mills Pvt. Ltd." amounting to Rs.0.71 Crs (70,500 sh @ 100) as on March 31, 2018. Further the said sales transactions are set off against the ledger of "Trimax It Infrastructure & Services Ltd" amounting to Rs.10.86 Crs as on March 03, 2018. However, the said sale transaction does not show any cash flow in the company.

The books of accounts 2017-18 identified certain Journal entries which resulted in reduction of balances / set off of balances of purchases and sales etc. The details of such adjustments are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Journal Entry	Name of Party	Amount (Crs)
31.03.2018	JMD Sounds Ltd.	4,00,000 Sh @ 220	8.80	03.03.2018	Trimax IT Infrastructure & Services Ltd.	10.86
31.03.2018	Statabdi Tradelink Pvt. Ltd.	9,14,000 Sh @ 10	0.91			

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Journal Entry	Name of Party	Amount (Crs)
31.03.2018	Prince Tradecom Ltd.	5,87,520 Sh @ 10	0.59			
31.03.2018	Apporva Exports Pvt. Ltd.	25,000 Sh @ 40	0.10			
31.03.2018	Shree Ganesh Mills Pvt. Ltd.	70,500 Sh @ 100	0.71			

No evidences of purchase/sales etc. were available to substantiate the transactions. Further the above set off entries did not have any cash flow impacts in the books.

Prime Capital Market Ltd.

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it was observed that the, "Prime Capital Market Ltd" is mentioned in the list of shell company published by Ministry of Corporate Affairs dated June 09, 2017 available in public domain.

Further, the company has passed three journal entries by crediting sale of unquoted shares of "K M Sugar Mills." amounting to Rs. 0.03 Crs (14,700 sh @ 22.80), "Kavveri Tele com" amounting to Rs. 0.01 Crs (5,000 @ 10.5) , "Kothari Petro" amounting to Rs. 0.02 Crs (25,000 Sh). Further, the Company had received funds against the said sales. The funds was credited in the Kotak Mahindra Bank. Total receipts against the sale was amounting to Rs. 0.06 Crs. The details are as under;

Date of Sale	Name of scrip	No. of shares & rate	Amount (Crs)	Date of Receipt	Name of Bank	Amount (Crs)
26.09.2017	K M Sugar Mills	14,700	0.03	06.03.2018	Kotak Mahindra Bank	0.02
26.09.2017	Kavveri Telecom	5,000	0.01	31.03.2018	Kotak Mahindra Bank	0.04
26.09.2017	Kothari Petro	25,000	0.02			

12.2. With regards to the allegation that the investment in unquoted shares were misrepresented, the Replying Noticees have made the following submissions:

"We hereby categorically deny that our company has misrepresented or overstated investments. All the investments done by the company are genuine in nature and are backed by necessary documents and supporting. All the purchases done are purely genuine and the transactions are supported by proper banking channel payments. Overstatement of investments occurs when there are investments as per the financials

of the company while in actual they have neither been purchased nor payment have been made against such purchases. In our case, all the purchases are supported by proper genuine invoices and payments are done through legal banking channels. Hence, considering such genuine transactions are gross errors made by the forensic audtor. During the course of the forensic audit, all the necessary documents, details and explanations were provided for the purchase of unquoted equity investments. The forensic auditor has grossly erred in making their observation and making remarks that the purchase and sale transactions are non-genuine in nature. In view of the above, we deny the above allegations made on the company and submit that the forensic audit report issued by the forensic auditor is biased and wrong. We are enclosing herewith the share certificates of the unquoted shares and also DP statements justifying our holdings in the books of accounts."

12.3. From the observations of the FAR, which are reproduced above, SCN has alleged that JMD has misrepresented its investments in unquoted shares. From the observations of the FAR, I note that the forensic auditor has made adverse observations in respect of many transactions in unquoted shares done by JMD which did not have supporting bank entries and many of which have been set off against purported existing credit balances. I note that the Replying Noticees have claimed to have enclosed 'demat statement' alongwith their reply as proof of transaction but I find that no such document is found as Annexure to the reply. However, I find that there is copy of Holding Statement from the Depository Participant which only indicated the holding of securities of quoted shares and thus is not relevant as the present allegation refers to investment in unquoted shares. Further, the Replying Noticees claim to have attached copies of Share Certificates alongwith their reply, however, I find that except for Price Tradecom Ltd., Approva Export Pvt. Ltd, JMD Sounds Ltd. and Satabdi Tradelink Ltd., no other copies of Share Certificates of the investments in unquoted shares made by JMD, has been produced by the Replying Noticees. I also note that the Replying Noticees have failed to produce any other supporting documents with respect to the sale and purchase of unquoted shares by them like bank statement, share transfer form, share certificate, demat statement (if dematerialized), etc. In the absence of adequate supporting documents, I am inclined to accept the findings of the FAR and note that the investments in unquoted shares as shown by JMD in the balance sheet for the FY 2015-16, 2016-17 and 2017-18 were misrepresented. By the aforesaid misrepresentation in the financial statement of the Company, JMD has failed to comply with the mandate contained in para 15

of IndAS1 and para 16 of AS 1 and thereby violated provisions of Regulation 33(1)(c) and Regulation 48 of LODR Regulations.

13. **Re:** Trade receivables of INR 22.2 Crore outstanding from entities which are under liquidation and no provisioning done for the same resulting in overstatement of profits of the company.

13.1. SEBI interim order dated September 14, 2017 has made the following observation:

> "*Further, on preliminary examination of the list of entities from whom amount is outstanding as trade receivable for more than 6 months, it was observed that few entities (Microqual Techno Pvt. Ltd., Micro Technologies (India) Pvt. Ltd.) from which around Rs. 22.20 crore is outstanding from the total receivables of Rs. 52.02 crore, are under liquidation as per MCA website which prima facie raises a doubt on the recoverability of the amount from these entities.*
>
> *Further from the Annual Report for the year ended March 31, 2016, it appears that the company has not made a provision for doubtful recovery in this regard which would result in prima facie overstatement of total profit of the company. "*

13.2. In the present proceedings, in respect of the aforesaid observations made in the interim order, the Replying Noticees have submitted as under:

> "As per our understanding from the forensic audit report and earlier communications and submissions made to SEBI on the concerned point, it highlights the dues receivable from Microqual Techno Private Limited for an amount of Rs. 22.20 crores. We hereby submit that no provisioning was required in regard to receivables of Rs. 22.20 Crore from Microqual Techno Pvt. Ltd. (MTPL) as the said amount had been adjusted against the liabilities of other sundry creditors as per the revert of all the parties and that had been accepted by all Sundry Debtors & Creditors. MTPL had informed us about its cash crunch and delay in payments of our dues. In order to safeguard ourselves from the Bad Debt, it was agreed between our company, MTPL and various sundry creditors (who were known to MTPL as well) that the dues receivable by our sundry creditors would be directly paid off by MTPL. Having agreed on such terms, we were able to clear dues of our sundry creditors and save ourselves from the potential provision of bad debt. This had not only saved the company from incurring losses but also it directly safeguarded the interest of the shareholders' fund. In view of recovery of dues nothing needs to be provided in the books and hence no Provision for Bad & Doubtful Debts were provided in the books of accounts. We are enclosing herewith copy of consent letter and confirmation of ledger from sundry creditors for your verification and records. (Refer Annexure "E" with reply letter) Pg no: 118-120 In view of the above, we deny the above allegations made on the company and submit that the forensic audit report issued by the forensic auditor is biased and wrong."

13.3. From the observations at Page 34 of FAR, I note that JMD had not furnished any response to the queries raised by the forensic auditor on this observation of the interim order. I note that the Replying Noticees have chosen to reply to this allegation for the first time only in the present proceedings. I note that winding–up order was passed by the Hon'ble Bombay High Court against M/s. Microqual Techno Pvt. Ltd. on February 2, 2016 and against M/s. Micro Technologies (India) Pvt. Ltd. on October 8, 2014. I note that for the FY 2015-16, JMD ought to have made provision for bad debts in respect of these two accounts which it failed to do so. I am not convinced with the explanation put forward by the Replying Noticees that the receivable's from the said amount had been adjusted against the liabilities of other sundry creditors as per the revert of all the parties and that had been accepted by all Sundry Debtors. From Annexure E to the reply of the Replying Noticees, I find that there is no consent letter from the creditors and debtors which the Replying Noticees claim to have enclosed. The copy of the ledger account of Microqual Techno Pvt. Ltd. and Micro Technologies (India) Ltd. in the books of JMD, is only attached as Annexure E. I do not find any other proof being submitted by the Replying Noticees in support of their claims. Thus, the claims made by the Replying Noticees cannot be accepted. Therefore, I agree with the observations of the FAR and the SCN that the profit of JMD was overstated by Rs. 22.20 Crores because of non-provisioning for bad debts and thus the financial statements of JMD for the FY 2015-16 were misrepresented to that extent. By the aforesaid misrepresentation in the financial statement of the Company, JMD has failed to comply with the mandate contained in para 15 of IndAS1 and para 16 of AS 1 and thereby violated provisions of Regulation 33(1)(c) and Regulation 48 of LODR Regulations.

14. **Re:** Reporting of non-genuine trade payable amount of Rs. 76.31 Crores due to the entities from whom no purchases are made during the FY 2015-16, no supporting documents/ explanation provided for the same.

14.1. SEBI interim order dated September 14, 2017 has made the following observation:

"*It is observed that the company has also provided the list of entities, to whom the amount is appearing as Trade Payable amounting to Rs. 132.81 crores as appearing in the financial statements for the year 2015-16. It is observed on a preliminary analysis of the purchases details given by company and the list of entities of Trade payable, that outstanding amount approx. Rs. 56.44 crore appears to be payable to the entities from whom purchases were made during the period April 01, 2015 to March 31, 2016. The balance of Rs. 76.37 crore is due to the entities from whom no purchases are made during the year. No supporting documents or explanation is provided by the company with respect to this balance amount of Rs. 76.31 crore. Hence, the authenticity of the same could not be verified. "*

14.2. In this regard, the Replying Noticees have submitted as under:

We hereby categorically deny that the amount of trade payable for an amount of INR 76.31 crores were non-genuine in nature. We are surprised and shocked to see such an observation from the forensic auditor in their forensic audit report submitted to SEBI.

We hereby request you to please take note that trade payables worth Rs. 76.37 crores are the carried forward balances from the year ending 31[51] March 2015 i.e. they are the opening balances for the Financial Year 2015-16 (i.e. the period under investigation) and hence no transactions for the said amount were appearing in the purchases and sales made during the said investigation period. The table below shows the trade payables account balances for the financial year 2015-16:

INR in Crores

Particulars	FY 2015-16
Opening Balance	143.35
Transaction during the year	142.20
Payments made	152.74
Closing Balance	132.81

During the course of the forensic audit, all the necessary documents, details and explanations were provided for the trade payables. The forensic auditor has grossly erred in making their observation and making remarks that the amounts of INR 76.31 crores were non-genuine in nature.

We are enclosing herewith a table showing party-wise opening balances, purchases, payments received and closing balances for your satisfaction and records.(Refer Annexure "F" with reply letter) Pg No: 121-154

In view of the above, we deny the above allegations made on the company and submit that the forensic audit report issued by the forensic auditor is biased and wrong.

14.3. From the observations at Page 34 of FAR, I note that JMD had not furnished any response to the queries raised by the forensic auditor on this observation of the interim order. I note that the Replying Noticees have chose to reply to this allegation for the first time only in the present proceedings. Be that as it may, from Annexure F to the reply of the Replying Noticees, I find that the JMD has presented a list of sundry creditors during the FY 2015-16. The total opening balance of sundry creditors is shown to be Rs. 143,34,79,847/-, payments during the year are shown to be Rs.142,20,18,704.80, new credits created during the year is shown to be Rs.152,73,59,579.30 and closing balance for the year is shown as Rs.132,81,38,971.40. I note that the FAR could not draw any conclusion/ remark on this observation of the interim order because no explanation/ reply came to be furnished by Noticee no. 1 on this query to the forensic auditor. After perusing through Annexure F of the reply of Replying Noticees, I note that no adverse remark/ observation is called for on this issue.

15. **Re:** Lack of supporting documents including VAT challans for sales of Rs. 212.88 Crore and purchases of Rs. 212.15 crore concluding the non-genuinity of transactions.

15.1. SEBI interim order dated September 14, 2017 has made the following observation:

"*It is observed that the company has failed to provide any supporting documents including VAT challans for the sales of Rs. 212.88 crore and purchases of Rs. 212.15 crore, for verification hence it raises question of authenticity of these transactions."*

15.2. In the present proceedings, in respect of the aforesaid observations made in the interim order, the Replying Noticees have submitted as under:

"We categorically deny the allegations that sales and purchases done by the company are not genuine. We hereby submit that all the purchases made and sales done are purely genuine and no suspicion can be raised for any single transaction. All the transactions are supported by the tax invoices raised and payments done from banking channels. No purchases/sales are made which are not genuine in nature. During the course of the forensic a11dit, all the necessary documents, details and explanations were provided for the purchase and sale transactions. The forensic auditor has grossly erred in making their

observation and making remarks that the purchase and sale transactions are non- genuine in nature. We are enclosing herewith copies of VAT Challans for the period from 1st April 2015 up to 31st March 2018 for your reference and records. Please note that the VAT is payable on Net Liabilities (VAT amount of Sales less VAT amount of Purchases) and the same has been paid by the Company via E-challans. (Refer Annexure "B" with reply letter). In view of the above, we deny the above allegations made on the company and submit that the forensic audit report issued by the forensic auditor is biased and wrong."

15.3. The FAR has made the following observations in this regard:

II.4 – Analysis of Sales against Vat Payments

Background:-

As per data provided by the company, the company records sales from computer hardware & Software, Audio, Video, CD-Kolkata & Jaipur, Sales of Mobile & Gitar. The sales entries in the books of accounts with the said party did not specify "Value added tax" (VAT) separately towards the applicable transactions.

Further incomes arising from Sales of quoted shares & sales of unquoted shares are as follows:-

F.Y. (Financial Year)	Computer Hw/Sw (Crs)	Sales of CD Kolkata (Crs.)	Sales of Quoted Shares (Crs.)	Sales of Unquoted shares (Crs.)	Sales of CD Jaipur (Crs.)	Sale of Gitar & Mobile	Total Turnover of the Company (Crs.)
2015-16	212.29	0.058	2.69	2.66	-	-	218.30
2016-17	49.48	0.045	0.86	10.10	0.59	-	61.08
2017-18	15.25	0.025	0.23	30.86	0.015	0.048	46.40

Details of VAT paid as per tally data are as follows:

F.Y. (Financial Year)	VAT Paid (Crs.)
2015-16	0.045
2016-17	0.024
2017-18	0.0012

Auditor's Remarks:-

On scrutiny of the books of accounts and based on the narrations mentioned in the books of accounts, as provided to us, it indicates that the, company used to Sell hardware & software to number of parties. The entries in the books of accounts with the said party does not specify "VAT" amount separately. In absence of any supporting we are not able to comment upon the transaction value.

Following are the details of sales taken place during the financial year against which VAT payment made:

Financial Year	Sales on which VAT included (Crs.)	VAT payable as per Reverse Calculation (Crs.)	VAT Payments (Crs.)	% of VAT paid to sales

2015-16	212.94	10.14	0.045	0.02%
2016-17	50.12	2.39	0.024	0.50%
2017-18	15.29	0.73	0.0012	0.008%

As per the Maharashtra Act, schedule - D the Value added tax is 5% on "Sale of hardware & Software" other than customized package. Calculations under above table, indicated that the VAT amounts payable and charged do not appear to match/reconcile. On scrutiny of purchase account it was observed that the company had not passed separate entry/booked of VAT. **(Refer Exhibit –XVIII.A)**

15.4. I note that the forensic auditor has made adverse remark against JMD for not specifying the VAT payment made against each party in the books of accounts. I also note that the forensic auditor has made an estimate about the VAT liability of JMD on the basis of the applicable VAT rate for "Sale of Hardware and Software". While reconciling the estimated VAT liability with the actual VAT paid by JMD, the forensic auditor has reached a conclusion that the same do not match to a large extent. In their defense, the Replying Noticees have contested that the VAT liability is calculated on 'Net Basis' i.e. VAT on Sales – VAT on purchases. I note that while the Replying Noticees have merely presented such an argument, they have failed to explain how the Net VAT liablity was arrived at i.e. the actual VAT liablity on Sales and the actual VAT liability on Purchases. I note that while VAT challans indicate the Net VAT paid by JMD but that by itself is of no use unless it is substantiated by the details as to how the said amount as been arrived at or by providing the copy of the VAT returns filed by JMD. I note that it was the precise case of FAR that JMD has consistently failed to provide explanation and supporting documents to substantiate its claim. Failure by JMD to explain the reconciliation between the VAT paid and the estimated VAT liablity (as arrived at in the FAR) raises suspicion on the genuineness of the disclosure of purchase and sale figures mentioned by JMD in the financial statements. I note that the Replying Noticees have also not provided copy of any invoices (except for the invoice of purchase from Blue Sea Commodities) to support their claim about genuineness of the Purchase or Sales figures shown in the financial statements of JMD. In view of the above, I find that the figures of 'Revenue' and 'Purchases' as shown in the financial statements of JMD for the FY 2015-16, 2016-17 and 2017-18, are unreliable and misrepresented. By the aforesaid

misrepresentation in the financial statement of the Company, JMD has failed to comply with the mandate contained in para 15 of IndAS1 and para 16 of AS 1 and thereby violated provisions of Regulation 33(1)(c) and Regulation 48 of LODR Regulations.

B. Non-furnishing of information/ non-cooperation by JMD:

16. The SCN has alleged that BSE vide letter dated April 17, 2018 informed the JMD about the appointment of forensic auditor in line with SEBI order dated September 14, 2017 (i.e. date of interim order). In the same letter, the BSE requested JMD to provide information to the forensic auditor. The SCN further alleges that JMD did not furnish the required information/supporting documents as sought by the forensic auditor.

16.1. In this regard, the Replying Noticees have submitted as under:

"We have furnished the details and documents(books of accounts, bank statement, Balance sheet along with details, Annual Report, Purchase register, Sales Register, Minutes Books and other related documents) via mail dated June 13,2018, June 19, 2018,August 9, 2018, Sept 5, 2018 and Sept 7, 2018, respectively, as asked by you through mail. This is a matter of record and no further explanation is required on this point. We categorically deny that company did not furnish the required information/supporting documents as sought by the forensic auditor. All the details seeked/demanded by the forensic auditor were provided to in the best capacity of the company. Our company has in its best possible efforts tried to satisfy the forensic auditors with all the details and explanations as required by them."

16.2. The FAR has made the following observation on this issue:

Further Auditor's Remarks for all the above observation:-

Based on the below table the company had provided limited information i.e. books of accounts from April - 2015 to January – 2018 (For Purchase & sales till June, 2017) vide its e -mail dated September 05, 2018 (Refer **Exhibit –A & G**), Copy of minutes vide its e -mail dated June 13, 2018 (Refer **Exhibit –E & G**), Bank Statements mail dated June 13, 2018 (Refer **Exhibit –F & G**), Annual returns vide its e - mail dated June 13, 2018 (Refer **Exhibit –F & G**).

The Auditor had requested further data and clarification on certain entries appearing in the bank book for F.Y.s 2015-16, 2016-17 and 2017-18. **(Refer Exhibit- D to D.2)**. Reminder also given on said data and clarification **(Refer Exhibit- D to D.2)**. In absence of data and clarification audit was conducted based on entries appearing in the books of accounts and observation therefrom.

On November 26, 2018 draft observation - I has been sent, on December 03, 2018 draft observation - II has been sent, on January 02, 2019 draft observation - III has been sent and on January 05, 2019 draft observation - IV has been sent **(Refer Exhibit – I.A to I.E)**. Then Auditor

has given the reminder for the Part-I & Part-II on December 11, 2018 **(Refer Exhibit - I.A & I.B)**. Further auditor had written a letter to the company and also to director dated January 17, 2019 for the management responses **(Exhibit – I.E for reference i.e. Letter Jagdish Prasad Purohit & Exhibit – I.F - Letter Kailash Prasad Purohit for reference)**. However, the audit team had not received any response to the said letter and various e-mail shared to the company for management response. **(Refer Exhibit - I.A to I.F & A to G)**

Sr. No.	Date	Mail sent by	Gist
1.	13-June-2018	Auditors	Details required for the audit 1. Books of Accounts 2. Bank Statement 3. Secretarial Record (**Exhibit – Y)**
2.	18-June-2018	Auditors	Confirmation seeked for list of the documents received (**Exhibit – Z)**
3.	19-June-2018	Company	Confirmation received for mail dated 18.06.2018 (**Exhibit – Z)**
4.	04-Aug-2018	Auditors	Request to provide trial balance in particular format **(Exhibit-AA)**
5.	06-Aug-2019	Auditors	Reminder for trial balance in particular format **(Exhibit-AA)**
6.	09-Aug-2019	Auditors	Reminder for trial balance in particular format **(Exhibit-AA)**
7.	09-Aug-2019	Company	Trial balance received **(Exhibit-AA)**
8.	09-Aug-2019	Auditors	Trial Balance received but not in the particular format which was asked for. Hence, again requested for the same **(Exhibit-AA)**
9.	13-Aug-2018	Auditors	Reminder for trial balance in particular format **(Exhibit-AA)**
10.	13-Aug-2018	Auditors	Request for tally data **(Exhibit-A)**
11.	20-Aug-2018	Auditors	Reminder for trial balance in particular format **(Exhibit-AA)**
12.	20-Aug-2018	Auditors	Reminder for tally data (**Exhibit-A)**
13.	27-Aug-2018	Auditors	Reminder for tally data **(Exhibit-A)**
14.	30-Aug-2018	Auditors	Reminder for tally data (**Exhibit-A)**
15.	30-Aug-2018	Auditors	Reminder for trial balance in particular format **(Exhibit-AA)**
16.	31-Aug-2018	Auditors	Final Reminder for tally data (**Exhibit-A)**
17.	05-Sep-2018	Company	Company forward the e-mail of Tally data (**Exhibit-A)**
18.	14-Sep-2018	Auditors	Request to provide Loan Given Agreements list of the various parties where mentioned in e-mail (2016-17) (**Exhibit-B.1)**
19.	14-Sep-2018	Auditors	Request to provide Loan Given Agreements list of the various parties where mentioned in e-mail (2017-18) (**Exhibit-B.2)**
20.	19-Sep-2018	Auditors	Request to provide details where narration was not mentioned (2015-16) (**Exhibit-D)**

Sr. No.	Date	Mail sent by	Gist
21.	19-Sep-2018	Auditors	Request to provide Loan Given Agreements list of the various parties where mentioned in e-mail (2015-16) (**Exhibit-B)**
22.	19-Sep-2018	Auditors	Reminder for Loan Given Agreements list of the various parties where mentioned in e-mail (2016-17) (**Exhibit-B.1)**
23.	19-Sep-2018	Auditors	Reminder for Loan Given Agreements list of the various parties where mentioned in e-mail (2017-18) (**Exhibit-B.2)**
24.	19-Sep-2018	Auditors	Information sought-such as 1. List of Employees including qualification 2. List of rented Premises & its agreements 3. List of AMC & its contract 4. Details of advertisement given 5. Details of studio maintenance charges **(Exhibit – C)**
25.	22-Sep-2018	Auditors	Request to provide details where narration was not mentioned (2016-17) (**Exhibit-D.1)**
26.	23-Sep-2018	Auditors	Request to provide details where narration was not mentioned (2017-18) (**Exhibit-D.2)**
27.	28-Sep-2018	Auditors	Reminder for details such as 1. List of Employees including qualification 2. List of rented Premises & its agreements 3. List of AMC & its contract 4. Details of advertisement given 5. Details of studio maintenance charges **(Exhibit – C)**
28.	28-Sep-2018	Auditors	Reminder for Loan Given Agreements (2017-18) list of the various parties where mentioned in e-mail **(Exhibit-B.2)**
29.	28-Sep-2018	Auditors	Reminder for Loan Given Agreements (2016-17) list of the various parties where mentioned in e-mail (**Exhibit-B.1)**
30.	28-Sep-2018	Auditors	Reminder for Loan Given Agreements (2015-16) list of the various parties where mentioned in e-mail (**Exhibit-B)**
31.	28-Sep-2018	Auditors	Reminder to provide details where narration was not mentioned (2015-16) (**Exhibit-D)**
32.	28-Sep-2018	Auditors	Reminder to provide details where narration was not mentioned (2016-17) (**Exhibit-D.1)**
33.	28-Sep-2018	Auditors	Reminder to provide details where narration was not mentioned (2017-18) (**Exhibit-D.2)**
34.	12-Nov-2018	Auditors	Reminder for Loan Given Agreements (2017-18) (**Exhibit-B.2)**
35.	12-Nov-2018	Auditors	Reminder for Loan Given Agreements (2016-17) (**Exhibit-B.1)**
36.	12-Nov-2018	Auditors	Reminder for Loan Given Agreements (2015-16) (**Exhibit-B)**
37.	12-Nov-2018	Auditors	Reminder to provide details where narration was not mentioned (2016-17) (**Exhibit-D.1)**
38.	12-Nov-2018	Auditors	Reminder to provide details where narration was not mentioned (2017-18) (**Exhibit-D.2)**

Sr. No.	Date	Mail sent by	Gist
39.	12-Nov-2018	Auditors	Reminder for such as 1. List of Employees including qualification 2. List of rented Premises & its agreements 3. List of AMC & its contract 4. Details of advertisement given 5. Details of studio maintenance charges **(Exhibit – C)**
40.	16-Nov-2018	Auditors	Final reminder for providing all the data before 19.11.2018 else will submit the final observation based on available information. **(Exhibit – BB)**
41.	26-Nov-2018	Auditors	Part-I of draft observation shared for management responses **(Exhibit – I.A)**
42.	03-Dec-2018	Auditors	Part-II of draft observation shared for management responses **(Exhibit – I.B)**
43.	11-Dec2018	Auditors	Reminder of Part-I of draft observation shared for management responses **(Exhibit – I.A)**
44.	11-Dec-2018	Auditors	Reminder of Part-II of draft observation shared for management responses **(Exhibit – I.B)**
45.	02-Jan-2019	Auditors	Part-III of draft observation shared for management responses **(Exhibit – I.C)**
46.	05-Jan-2019	Auditors	Part-IV of draft observation shared for management responses **(Exhibit – I.D)**

16.3. From the observations of the FAR, I find that there were several instances when JMD had failed to provide explanation, documents, comments and information to the forensic auditor, despite repeated reminders. I note that the Replying Noticees have not specifically denied the observations at Page 90-93 of the FAR which relates to the narration of detailed instances of non-cooperation and not providing information/ explanation by JMD. In view of the above, I find that the allegation in respect of not furnishing of information by JMD to the forensic auditor is sustained.

16.4. BSE was directed to appoint a forensic auditor for carrying out forensic audit of JMD vide SEBI interim order dated September 14, 2017. Thus, the forensic audit was being carried out pursuant to a direction of SEBI. Being a listed entity, non-cooperation with such an audit is serious. I also note that Section 11(2)(i) and 11(2)(ia) of the SEBI Act, 1992 has been invoked against the Noticee no. 1.

On a reading of these Sections, I observe that Section 11(1) of the SEBI Act, 1992 lays down the functions of SEBI, and in carrying out the said functions, SEBI is empowered, under Section 11(2)(i) and11(2)(ia) of the SEBI Act, 1992, to call for records from intermediaries and other entities. In the facts and circumstances of the present case, a forensic auditor appointed through an order of SEBI who seeks information from an entity must be treated with the same seriousness as if the information is being sought by SEBI. In view of the non-furnishing of the information sought by the forensic auditor, I find that JMD has violated Sections 11(2)(i) and (ia) of SEBI Act, 1992.

C. Violations of PFUTP Regulations, 2003:

17. I note that the scope of work, as was assigned to the forensic auditor by BSE, as stated in the Forensic Audit Report, was as follows:

"The scope identified vide As per aforesaid appointment letter and email dated December 13, 2017of BSE Ltd. is as under:

1. Possible misrepresentation including its financials and / or businesses and / or violation of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (hereinafter referred to as "LODR Regulations") and/or
2. Possible misusing of Books of Account/funds of the Company including facilitation of accommodation entries and/ or entering into transaction to the detriment of minority shareholders and controlling shareholders and key management person (KMP)

For the aforesaid reasons, the audit inter alia should cover the following:

a. Suspicious transactions/items as provided in the SEBI / Exchange Orders passed on the Company
b. To examine the Books of Accounts and backup records of the company for the period of two years including the year of transactions referred in SEBI / Exchange Order to:
   I. Cash flow analysis to trace source of funds and end use of funds on sample basis (as per Annual Report for last 2 years)
   II. Assess genuineness of the debtors/ receivables and creditors / payables,
   III. Reconciliation of debtors / creditors as stated by the Company vis-à-vis the actual position and the prospects of recovery (focus on top debtors)
   IV. Analysis of Related party transactions
   V. High value bank transactions to ascertain their relevance to the business of the company and to identify the potential round-tripping of funds or accommodation transactions
   VI. Assess genuineness of expenditure (capex as well as other goods and services) and review of top vendors / suppliers / customers
   VII. Investments made by the company in subsidiary companies along with the relevant fund flows, if any
   VIII. Assess genuineness of investments both listed and unlisted with appropriateness of valuation and flow of funds

IX. Assessment of utilization of funds lying as share premium, if any, in terms of provisions of Companies Act
X. Comment on the shareholding pattern
XI. Wherever applicable, the relevant funds flow including analysis of relevant bank statements (also source and utilization of funds).

c. Verification / discussions:
I. Independent and /or physical verification of the underlying transactions
II. Background / reputation checks based on public domain information related to promoters, nature/ line of business, genuineness of business activities of the company
III. Discussions with key stakeholders like Promoters/ Senior Management Team / Departmental heads, vendors, customers, company auditors, entities/persons involved in day to day affairs of the company, etc.
IV. Business history, directorship searches and litigations
V. Assessment of size and scope of business
VI. Site visit as may be applicable for verifying existence of the company functional/ registered office, assets, place of execution of services, etc. In case of doubt, site visit to be carried out at plants / factories."

18. I note that conclusion of the forensic audit, as mentioned in the FAR, is as under:

"……

"A summary of significant observations based on analysis of information in tally/public domain etc. is as under; Reference also invited to various paras of the report for detailed observations.

<table>
<tr><th>Area of audit</th><th>Ref. Para</th><th>Remarks</th></tr>
<tr><td>Sett-off /adjustment of balances outstanding</td><td>Part- II.1 & Part-II.2</td><td>The Company had certain outstanding balances pending to be received from sale of shares. Such balances were set off/adjusted with other parties balances. The details are as under:-

a) Following is table of which company have received/paid cash against sale/purchase of shares
Sale of shares:

<table>
<tr><th>F.Y.</th><th>Total Sale of Shares (Rs. in Crs.)</th><th>Amount received (Rs. in Crs.)</th><th>Amounts set off/adjusted (Crs.)</th></tr>
<tr><td>2016-17</td><td>10.96</td><td>0.82</td><td>10.14</td></tr>
<tr><td>2017-18</td><td>31.09</td><td>1.46</td><td>29.63</td></tr>
</table>

Purchase of shares:
<table>
<tr><th>F.Y.</th><th>Total purchase of Shares (Crs.)</th><th>Amount received (Crs.)</th><th>Amounts set off/adjusted (Crs.)</th></tr>
</table>
</td></tr>
</table>

<table>
<tr><th>Area of audit</th><th>Ref. Para</th><th>Remarks</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><td>2016-17</td><td>7.27</td><td>0.25</td><td>7.02</td></tr>
<tr><td>2017-18</td><td>12.79</td><td>3.70</td><td>9.09</td></tr>
</table>

The above practice was observed in various transaction and prima facie indicated book entries. Rationale for such transactions is not known in absence of adequate records and management responses not available.</td></tr>
<tr><td>Potential Not compliance to NBFC regulations.</td><td>Part-II.11</td><td>As per the RBI circular dated 1st July 2015 para 6, company which are registered under companies Act 1956 get themselves registered as Non-Banking Financial Company (NBFC) when if company fulfils following both the criteria;
a) Company having financial assets constitute more than 50 per cent of the total assets and
b) Income from financial assets constitute more than 50 per cent of the gross income.

It was observed that during F.Y. 2017-18 the company had financial assets of Rs. 27.75 Crs. against total assets of Rs.37.43 Crs & gross income from the said financial assets of Rs. 31.09 Crs. against total income of Rs.38.40 Crs are more than 50 per cent. However, basis the above it appears that the company ought to have registered as NBFC. The audit team did not get the clarity from the company in regard to such registration.</td></tr>
<tr><td>Transactions with a party at a address having multiple companies at same address</td><td>Part II .10</td><td>It was observed the company had taken certain loan from a Company named Amber Tradecom Pvt. Ltd.in FY 15-16 and subsequently repaid in FY 15-16. Background search of search in public domain of Amber Tradecom Pvt. Ltd identified multiple companies (approx. 50) having office at same location.
Further it was observed that the Company had undertaken transactions of purchase & sale of shares with some other parties also located at said address.</td></tr>
<tr><td>Significant Reduction in Value of Inventory</td><td>Part II.3</td><td>It was observed that the company revalued the balances of unquoted shares on a regular basis at the end of each financial year. The below table identifies such revaluations and the values being reduced significantly.

<table>
<tr><th>F.Y.</th><th>Original Value (Crs.)</th><th>Revised Value (Crs.)</th><th>% of Reduction in value</th></tr>
<tr><td>2015-16</td><td>29.61</td><td>28.29</td><td>(4.48%)</td></tr>
<tr><td>2016-17</td><td>28.29</td><td>25.56</td><td>(9.64%)</td></tr>
<tr><td>2017-18</td><td>25.56</td><td>0.73</td><td>(71.28%)</td></tr>
</table>

The detailed break up of such unquoted shares (classified as inventory) was not available.</td></tr>
</table>

Area of audit	Ref. Para	Remarks
Company not available during Field Visit	**Refer Exhibit-LXV**	We have conducted field visit as on 16.01.2019 as per the address available on public domain. The following companies were not available on the date of such visit at such location:- 1. Overgrow Commosale Pvt. Ltd. 2. Fort Project Ltd. 3. Confident Commodeal Pvt. Ltd. 4. Nirnidhi Consultant Pvt. Ltd. 5. Namaskar Fashions Pvt. Ltd. 6. Neelkanth Commodities Pvt. Ltd. 7. Shree Ganesh Sugar Mills Pvt. Ltd.

V. <u>Overall analysis:-</u>

1. Possible misrepresentation including its financial and/or business and/or violation of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 (hereinafter referred to as "LODR Regulation":

Inadequate Data was received to comment upon.

2. Possible Misusing of books of accounts/funds of the company including facilitation of accommodation entries and/or entering into transaction to the detriment of minority shareholders and controlling shareholders and key management person (KMP):

Inadequate data was received to comment upon.

VI. Other Observation:

Based on the facts and our observations mentioned above, it is indicated that during the period under audit, the company has undertaken following types of transactions.

a) Following are the details of receipts against sales of quoted & unquoted shares however the underlying supporting documents for such transactions were not made available for audit.

Financial Year	Quoted (Crs)	Unquoted (Crs)	Total Sale of Shares (Crs.)	Amount Received (Crs.)	Total Turnover of the Company (Crs.)	Ratio of sale of shares against Total t/o
2015-16	2.69	2.66	5.36	2.93	218.30	2.45%
2016-17	0.86	10.10	10.96	0.82	61.08	17.94%
2017-18	0.23	30.86	31.09	1.46	46.39	67.014%

(Detailed refer Para - II.1)

b) Following are the details of payments against purchase of quoted & unquoted shares. The underlying supporting documents for such transactions were not available

Financial Year	Quoted Shares (Crs)	Unquoted Shares (Crs)	Total Purchase of Shares (Crs.)	Amount Paid (Crs.)	Total Purchase of the Company (Crs.)	Ratio Purchase of shares against total t/0
2015-16	0.23	1.34	1.57	1.21	213.77	0.73%

Financial Year	Quoted Shares (Crs)	Unquoted Shares (Crs)	Total Purchase of Shares (Crs.)	Amount Paid (Crs.)	Total Purchase of the Company (Crs.)	Ratio Purchase of shares against total t/0
2016-17	0.088	7.18	7.27	0.25	57.07	12.74%
2017-18	0.14	12.65	12.79	3.70	28.05	45.60%

(Detailed refer Para - II.2)

c) Stock register/details not available in tally books of accounts. **(Detailed Refer Para - II.3 and Point-H)**

d) Following are the details of sales taken place during the financial year against which VAT payment made:

Financial Year	Sales on which VAT included (Crs.)	VAT payable as per Reverse Calculation (Crs.)	VAT Payments (Crs.)	% of VAT paid to sales
2015-16	212.94	10.14	0.045	0.02%
2016-17	50.12	2.39	0.024	0.50%
2017-18	15.29	0.73	0.0012	0.008%

Calculations under above table, indicated that the VAT amounts payable and charged do not appear to match/reconcile. **(Detailed refer Para - II.4)**

~~e)~~ In the absence of the relevant supporting documents to review the aforesaid transactions, the audit team is not able to comment on the same. In the absence of the relevant supporting documents, the audit team is not able to comment on the netting-off of transactions between assets & liabilities, within same accounting head i.e. Current assets Vs Current assets, Current assets Vs Investments vice versa. **(Detailed refer Para - II.1,2,5,6)**

~~f)~~ In the absence of the rent agreement etc. to review the transaction in detail, the audit team is not able to comment upon the said payments. **(Detailed refer Para - II.7 and Point-H)**

g) In the absence of the donation receipts etc. to review the transaction in detail, the audit team is not able to comment upon genuineness of payment. **(Detailed refer Para–II.8 and Point-H)**

h) In absence of books of accounts i.e. KYC documents of employees as appearing in the books of accounts and other details it is not able to comment upon the genuineness of said payments which made via cash. Further, as number of the employees are more in than 20 in F.Y. 2017-18 profession tax is applicable to the said company. However, the said payments has been not found in books of accounts to the extant available to us. **(Detailed refer Para –II.9)**

i) It was observed the company had taken certain loan from Amber Tradecom Pvt. Ltd.in FY 15-16 and subsequently repaid in FY 15-16. Background search in public domain of Amber Tradecom Pvt. Ltd identified multiple companies (approx. 50) having office at same location. i.e. 2E, Cornfield Road Ground Floor Kolkata (WB) - 700019 IN.

Further it was observed that the Company had also undertaken transactions of purchase & sale of shares with some other parties which are located at said address as mentioned above. (Name of parties: Satabdi Tradelink Ltd., Prince Tradecom Ltd.) **(Detailed refer Para -II.10)**

~~j)~~ On Scrutiny of the Annual report for FY 17-18 it was observed that the company had financial assets more than 50 per cent of the total assets & gross income from the said financial assets are more than 50 per cent in FY 17-18. Refer Para II.12 for the Calculations. However, basis same it appears the company ought to have registered as NBFC. In absence of total access of records, we

are unable to comment further on NBFC norms compliances, if applicable. **(Detailed refer Para – II.11)**

k) We are unable to comment upon the transactions where narration in bank book is not mentioned i.e. the details on sample basis thereto were sought and not available. **(Detailed refer Para – II.13 and Point-H)**

l) Company had provided limited information i.e. books of accounts from April - 2015 to January – 2018 (For Purchase & sales till June, 2017), Copy of minutes, Bank Statements, Annual returns. Auditor had requested further data and clarification on certain entries appearing in the bank book. **(Refer Exhibit – A to G)** Reminder also given on providing said data and clarification **(Refer Exhibit – A to G)**.

In absence of data and clarification, audit was conducted based on entries appearing in the books of accounts as made available and observation therefrom based on test checks carried out.

On November 26, 2018 draft observation - I has been sent, on December 03, 2018 draft observation - II has been sent, on January 02, 2019, draft observation - III has been sent and on January 05, 2019 draft observation - IV has been sent. **(Refer Exhibit - I.A to I.D)** Also, reminder for management responses of draft observations of Part-I & Part-II was seeked on December 11, 2018. **(Refer Exhibit - I.A & I.B)**

Further, audit team had written letter to the company and also to director dated January 17, 2019 for the management responses **(Exhibit – I.E for reference i.e. Letter Jagdish Prasad Purohit & Exhibit – I.F for reference i.e. Letter Kailash Prasad Purohit)**. However, the audit team had not received any response to the said letter and various e-mail shared to the company for management response. **(Refer Exhibit - I.A to I.F & A to G for the reminders)** Since the data was not adequate, audit cannot be concluded."

19. As can be noted from the above terms of reference of the auditor, scope of audit was to examine possible violations of LODR Regulations and not violations of PFUTP Regulations, 2003 and accordingly, the findings of the FAR are confined only to misrepresentation in the books of accounts of JMD and consequential and other violations of LODR Regulations. It is observed that the Investigating Authority, after examining the FAR, incorporated the findings of FAR as part of investigation report, and consequently, the same was reproduced in the SCN. However, the SCN additionally states, "…….*5 .*It was observed during investigation that the company (Noticee no. 1) had failed to present true and fair financial statements and had executed transactions which are non-genuine in nature tantamounting to misrepresentation of the accounts/ financials statement and misuse of account/ funds of the company. It was further observed JVL had misused funds/ misrepresented books of accounts which are detrimental to the interests of genuine investors

……..". Consequently, the SCN, *inter alia,* additionally, includes allegation of violation of provisions of Section 12A(a), (b) & (c) of the SEBI Act, 1992 and Regulations 3(b), (c) & (d), 4(1) and 4(2)(f) & (r) of PFUTP Regulations, 2003. I observe that while including the above violations in the findings of the stated SEBI investigation and consequently, in the SCN, there is no additional facts or findings provided, which is not in the FAR. It is observed that Noticee no. 1 to 8 have been charged with the violation of Section 12A(a), (b) & (c) of the SEBI Act, 1992 and Regulations 3(b), (c) & (d) of PFUTP Regulations, 2003 which can be in relation to dealing in securities. However, no details of trading viz: volume of shares traded, price impact, % increase or decrease in price, etc. have been provided. Nor is there any analysis as to how each of the finding of FAR has impacted the persons dealing in securities

20. I note that Section 12A(a), (b), (c) of the SEBI Act, 1992 deals with fraud related to securities market and the provisions of Regulations 3(b), (c) & (d), 4(1) and 4(2)(f) & (r) of PFUTP Regulations, 2003 are also related to securities market fraud/manipulation/ unfair trade practices. Section 12A (a), (b) & (c) of the SEBI Act, 1992 may be invoked in cases where there exists any manipulative or deceptive device or contrivance, any device, scheme or artifice to defraud or any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, purchase or sale of any securities. In the SCN, there are no trading or order data or details of any purchase, sale or price impact analysis that would impact the investors.

21. It is further observed that Regulation 4(1) of PFUTP Regulations, 2003, at the relevant time, dealt with fraudulent and unfair trade practices relating to securities while Regulation 4(2) is nothing but an enumeration of specific instances of fraudulent and unfair trade practices relating to securities. The common thread through these provisions is that the ingredients of fraud/ manipulation/ unfair trade practices must be satisfied. In this regard, I note that the Explanation inserted to Regulation 4(1) of PFUTP Regulations, 2003 with effect from October 19, 2020 clarifies as follows:

> "Explanation.–For the removal of doubts, it is clarified that any act of diversion, misutilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market."

Thus, as per the aforesaid explanation also any device, scheme or artifice to manipulate the books of accounts or financial statement of a company, in order to be termed as manipulative, fraudulent and an unfair trade practice in the securities market should have directly or indirectly result into manipulation of the price of securities of that company. In the present case, there is no allegation of manipulation of price shares of JMD. I note that FAR does not allege any diversion/ mis-utilisation of funds which as per the aforesaid explanation can be termed as manipulative, fraudulent and an unfair trade practice in the securities market without there being any direct or indirect manipulation of the price of the securities of the Company. I note that there is no bar on taking action by SEBI on the basis of a FAR, invoking provisions of PFUTP Regulations, 2003 and other similar provision of SEBI Act, 1992 related to fraud, if, after examination of the matter, including the FAR, SEBI finds that there was impact on the securities market or the price of the scrip, which are ingredients to prove violations of PFUTP Regulations, 2003. I further observe that the definition of fraud as given under Regulation 2(1) (c) and as interpreted by the Hon'ble Supreme Court of India in Securities and Exchange Board of India and Ors v. Kanaiyalal Baldevbhai Patel and Ors. (2017) 15 SCC 753, makes it clear that 'inducement' is required to constitute 'fraud' under PFUTP Regulations 2003 and must be made while 'dealing in securities' and must be made for the purpose 'to induce others to deal in securities'. The allegations made in the SCN does not bring out findings or any facts relating to impact on trading in securities or these essential ingredients of 'fraud' such as 'manipulation in securities', 'dealing in securities', 'inducement', etc.

22. Therefore, I find that violations of PFUTP Regulations, 2003, as alleged in the SCN, are very general and vague in nature without making out any specific case containing necessary ingredients required to constitute these violations. In my view, due to the aforesaid reasons, under the facts and circumstances of the present case, I find that the allegations of violation of Section 12A(a), (b & (c) of the SEBI Act, 1992 and provisions of PFUTP Regulations, 2003 is not tenable against Noticee no. 1 to 8. However, SEBI is at liberty to issue fresh SCN to pursue violations of PFUTP Regulations, 2003 by bringing out specific case/ingredients under PFUTP Regulations, 2003.

23. I note that Noticee no. 9, being the statutory auditors of JMD during the period under Forensic Audit i.e. April 1, 2015 to January 31, 2018, have also been issued separate show cause notices i.e. SCN-II, alleging that the statutory auditors have been negligent in performance of their duties and have not been diligent in issuance of unqualified audit opinion for JMD for the FY 2015-16, 2016-17 and 2017-18 (upto January 31, 2018), thereby violating provisions of Section 12A(a), 12A(b) and 12A(c) of SEBI Act, 1992 and Regulation 3(b), 3(c) and 3(d), Regulation 4(1), 4(2)(a), 4(2)(e), 4(2)(f) and 4(2)(r) of PFUTP Regulations, 2003. In this regard, before dealing with the liability of the statutory auditors, it would be appropriate to refer to the judgment of Hon'ble Bombay High Court in Writ Petition No. 5249 of 2010 (filed by Price Waterhouse, Bangalore) and Writ Petition No. 5256 of 2010 (filed by 10 CA firms alongwith their partners), dated August 13, 2010, wherein Hon'ble Bombay High Court held as under:

> "25. .... In our view, the jurisdiction of SEBI would also depend upon the evidence which is available during such inquiry. It is true, as argued by the learned counsel for the petitioners, that the SEBI cannot regulate the profession of Chartered Accountants. This proposition cannot be disputed in any manner. It is required to be noted that by taking remedial and preventive measures in the interest of investors and for regulating the securities market, if any steps are taken by the SEBI, it can never be said that it is regulating the profession of the Chartered Accountants. So far as listed Companies are concerned, the SEBI has all the powers under the Act and the Regulations to take all remedial and protective measures to safeguard the interest of investors and securities market. So far as the role of Auditors is concerned, it is a very important role under the Companies Act. As posited in Section 227 of

> the Companies Act, every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the Company, whether kept at the head office of the company or elsewhere, and shall be entitled to require from the officers of the Company such information and explanations as the auditor may think necessary for the performance of his duties. The auditors in the Company are functioning as statutory auditors. They have been appointed by the shareholders by majority. They owe a duty to the shareholders and are required to give a correct picture of the financial affairs of the Company.
>
> With a view to safeguard the interests of such investors, in our view, it is the duty of the SEBI to see that maximum care is required to be taken to protect the interest of such investors so that they may not be subjected to any fraud or cheating in the matter of their investments in the securities market. Normally, an investor invests his money by considering the financial health of the Company and in order to find out the same, one will naturally bank upon the accounts and balance-sheets of the Company. If it is unearthed during inquiry before SEBI that a particular Chartered Accountant in connivance and in collusion with the Officers/Directors of the Company has concocted false accounts, in our view, there is no reason as to why to protect the interests of investors and regulate the securities market, such a person cannot be prevented from dealing with the auditing of such a public listed Company. In our view, the SEBI has got inherent powers to take all ancillary steps to safeguard the interest of investors and securities market. ....."

24. From the above-mentioned judgment of Hon'ble Bombay High Court, it is observed that for SEBI to exercise jurisdiction over an auditor, it has to be shown that the case pertains to an auditor who in connivance and in collusion with the officers or directors of a company has concocted false accounts. I note that in the present matter SCN-II, as issued to Noticee no. 9, only allege that the statutory auditors were not diligent enough in the issuance of an unqualified audit opinion for the financial statements of JMD. The SCN-II do not allege that the statutory auditors were in connivance with the promoters/ directors / management of JMD to fudge the financial statements of JMD. Moreover, as discussed in previous paras, I note that the charges of violation of provisions of SEBI Act, 1992 and PFUTP Regulations, 2003, pertaining to fraud, have not been made out even against the Noticee no. 1 to 8 and SEBI has been given liberty to issue fresh SCN to pursue violations of PFUTP Regulations, 2003 by bringing out specific case/ingredients under PFUTP Regulations, 2003. Therefore, in view of the judgment of the Hon'ble Bombay High Court in PWC matter (supra) and other facts and circumstances of the case, violations, as alleged in the SCN-II against Noticee no. 9, are not made out.

25. SCN, also alleges that JMD has violated Regulation 4(1)(a),(b),(c),(e) & (g), 4(2))f)(i)(2), 4(2)(f)(ii)(6) & (7) and 4(2)(f)(iii)(3),(6) & (12) of the LODR Regulations. In this regard, I note that Regulation 4 of LODR Regulations, lays down principles governing disclosures and obligations of the listed entity under the LODR Regulations. Specific clauses of Regulation 4(1), the violation of which has been alleged in the SCN, provides that the listed entity which has listed securities shall make disclosures and abide by its obligations under these regulations, in accordance with the following principles:

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

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

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

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

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

26. As discussed above, JMD has been found to be in violation of Regulation 34(3), 33(1)(c) and Reg. 48 of the LODR Regulations, therefore, JMD was not in compliance of the principles laid down in the aforesaid clauses of Regulation 4(1) and hence, JMD is in violation of 4(1)(a), (b), (c), (e) and (g) of LODR Regulations.

27. Regarding the violations of Regulations 4(2) (f) (ii) (6) & (7) and 4(2)(f)(iii) (1), (3), (6) & (12) of the LODR Regulations by JMD, as alleged in the SCN, I find that Regulation 4(2)(f) enlists the responsibilities of board of directors of listed entities. Clause (ii) of Regulation 4(2)(f) deals with key functions of the board of directors and Clause (iii) deals with other functions of the board of directors. Any liability arising out of the violation of these principles because of violation of disclosure or other obligation of the listed entity under the LODR Regulations, is of the board of directors of the listed entity. Therefore, I find that JMD cannot be said to be in violations of Regulation 4(2)(f)(ii) (6) & (7) and 4(2)(f)(iii) (1), (3), (6) & (12) of the LODR Regulations which pertain to obligations of the board of directors.

28. SCN further alleges that JMD has violated Section 21 of SCRA, 1956. In this regard, I note that Section 21 of SCRA, 1956 provides that where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange. I note that securities of JMD are listed on BSE. The relevant extract of the two of the conditions, as contained in uniform listing agreement, as mandated by SEBI Circular No. CIR/CFD/CMD/6/2015 dated October 13, 2015, is as under:

> ".....1. That the Issuer shall comply with the extant provisions of all the applicable statutory enactments governing the issuance, listing and continued listing of securities.
>
> 2. That without prejudice to the above clause, the Issuer hereby covenants and agrees that it shall comply with the following:—
>
> i. the SEBI (Listing Obligations And Disclosure Requirements) Regulations, 2015 and other applicable regulations /guidelines/ circulars as may be issued by SEBI from time to time.
>
> ii. the relevant byelaws / regulations / circulars / notices / guidelines as may be issued by the Exchange from time to time.
>
> iii. such other directions, requirements and conditions as may be imposed by SEBI/Exchange from time to time....."

29. Above two are the conditions of listing agreement which every issuer company, whose securities are listed on a recognised stock exchange, is required to comply. As can be seen from the above-quoted conditions, one of the condition is compliance with LODR Regulations. In the present case, JMD is a company whose securities are listed on BSE Ltd. which is a recognised stock exchange. JMD being a company having its securities listed on BSE was also required to sign the said uniform listing agreement with BSE and in view of the provisions of Section 21 of SCRA, 1956, JMD was bound to comply with the conditions of the uniform listing agreement, as extracted above. JMD has been found to be in violation of the provisions of the LODR Regulations, as discussed above, therefore, JMD is in violation of the condition of the listing agreement and hence, is also in the violation of Section 21 of SCRA, 1956.

30. SCN further alleges that by virtue of the provision of Section 27 of the SEBI Act, 1992, Noticee no. 2 to 8, who were the directors/CFO of JMD at the relevant time, are liable for the violations alleged to be committed by JMD viz: Section 12A (a), (b) and (c) of the SEBI Act, 1992, Regulations 3(b), (c) & (d) and 4(1) and 4(2) (f) & (r) of the PFUTP Regulations, 2003, 4(1) (a), (b), (c), (e) & (g), Regulations 4(2)(f)(ii)(6) & (7), 4(2)(f)(iii)(1), (3), (6) & (12), Regulation 17(8) read with Part B of Schedule II, Clause B(2) of Schedule III read with Reg. 30, Regulation 33(2)(a) and Regulation 48 of LODR Regulations and Section 21 of SCRA, 1956. Thus, SCN imputes all the allegations which are levelled against JMD, automatically, on the directors /CFO of JMD. As already discussed in the forgoing paras, as regards the violations of Section 12A (a), (b) and (c) of the SEBI Act, 1992, Regulations 3(b), (c) & (d) and 4(1) and 4(2) (f) & (r) of the PFUTP Regulations, 2003, as alleged in the SCN, liberty has been given to SEBI to further investigate and proceed with the matter and the role of directors *qua* these violations may also be examined by SEBI. In the previous paras, it has been found that JMD was in violation Regulations 34(3), 33(1)(c) and Reg. 48 of the LODR Regulations and Section 21 of SCRA, 1956. Therefore, in the context of Noticee no. 2 to Noticee no. 8, it has to be determined whether these Noticees are liable for those violations for which JMD has been found to be in violation, either by virtue of Section

27 of the SEBI Act, 1992 or otherwise. Regarding applicability of the Section 27 of the SEBI Act, 1992, I note that during the relevant period (i.e. Financial Years 2015-16 to 2017-18), Section 27 provided for the vicarious liability of certain persons who were in charge of and was responsible to the company where an offence is committed by a company. Section 27 at that time did not provide for the vicarious liability in respect of the civil liability of the company arising out of the violations committed by such company. However, after amendments made to Section 27 with effect from March 08, 2019, by the Finance Act, 2018, vicarious liability for civil liability of the company has been introduced by replacing the word "offence" with the word "contravention" in Section 27 of the SEBI Act, 1992. Therefore, Section 27 of the SEBI Act, 1992, at the relevant time, did not create any vicarious liability of these Noticees for the violations committed by JMD, with reference to LODR Regulations for which proceedings under Section 11, 11A, 11B and monetary penalty has been proposed, which are civil in nature. Now, the question remains whether these Noticees can be held independently liable for the violations alleged against them without any reference to vicarious liability under Section 27 of the SEBI Act, 1992. I note that Regulations 4(2)(f)(ii)(6) & (7), 4(2)(f)(iii) (3), (6) & (12) and 33(2)(a) of LODR Regulations, the violations of which have been alleged against Noticee no. 2 to 6, create specific and direct liability of the board of directors. As discussed above, Clause (ii) deals with key functions of the board of directors and Clause (iii) deals with other functions of the board of directors. Thus, board of directors is responsible for complying with these principles. Any liability arising out of the violation of these principles because of violation of disclosure or other obligation of the listed entity under the LODR Regulations or otherwise, is fastened on the board of directors of the listed entity. In the previous paras, it has been found that JMD was in violation of Regulations 34(3), 33(1)c) and 48 of the LODR Regulations and Section 21 of SCRA, 1956. In view of these violations found to have been committed by JMD, the principles contained in Regulation 4(2)(f)(ii)(6) & (7) and 4(2)(f)(iii)(3), (6) & (12) are also violated for which Noticee no. 2,3,4,5 and 6, being part of the board of directors of JMD are liable. Further, Regulation 33(2)(a) creates primary liability of board of directors and CEO/CFO, for certification and approval of financial results. Therefore, Noticee no. 2

to 8 are liable for violation of Regulation 33(2)(a) of LODR Regulations, also. Additionally, Noticee no. 2, 7 and 8, having issued untrue certificates with respect to the financial statements of JMD, have also violated Reg. 17(8) r/w. Part B of Schedule II of LODR Regulations.

31. I note that Noticee no. 2 to 6 were the directors of the Company and Noticee no. 7 and 8 were CFO of the Company, during the period of violations alleged in the SCN, i.e. April 01, 2015 to March 31, 2018. I note that Noticee no. 2 was the Chairman cum Managing Director of the Company and Noticee no. 3 was non-executive director of JMD, during the FY 2015-16 to FY 2017-18. Noticee no. 4 was the independent director of the Company during FY 2015-16 to FY 2017-18. Noticee no. 5 was the independent director of JMD during the FY 2015-16 and FY 2016-17 and Noticee no. 6 was the independent director of JMD during the FY 2017-18. Noticee no. 5 has contended that he was independent directors of the Company and did not have any day to day control over the affairs of the Company, therefore, he cannot be held liable for the violations alleged in the SCN. In this regard, I note that Regulation 4(2)(f) refers to board of directors of company, it does not make any distinction between independent director or other directors. I further note that during the financial years 2015-16 to 2017-18, the details of audit committee members of JMD, number of audit committee meetings held and the meeting attended by the concerned directors, are as under:

Financial Year FY 2015-16

Name of the Director	**Designation**	**Number of Meetings held during the year**	**Number of Meetings attended during the year**
Mr. Kailash Prasad Purohit (Noticee no. 2)	Member	4	4
Mr. Johar Pal Singh (Noticee no. 4)	Member	4	4

Mr. Mohit Jhunjhunwala (Noticee no. 5)	Chairman	4	4

Financial Year FY 2016-17

Name of the Members	**Designation Category**	**Number of Meetings held during the year**	**Number of Meetings attended during the year**
Mr. Kailash Prasad Purohit (Noticee no. 2)	Member	4	4
Mr. Johar Pal Singh** (Noticee no. 4)	Member / Chairman	4	4
Mr. Mohit Jhunjhunwala*** (Noticee no. 5)	Chairman	4	4
Mrs. Saroj Devi Kothari*	Member	----------	----------

*Appointed as Member of the Committee w.e.f. 7th March 2017.
**Appointed as Chairman of the Committee w.e.f. 7th March 2017.
***Resigned from the Board w.e.f. 7th March 2017.

Financial Year FY 2017-18

Name of the Members	**Designation**	**Number of Meetings held during the year**	**Number of Meetings attended during the year**
Mr. Kailash Prasad Purohit (Noticee no. 2)	Member	5	5
Mr. Johar Pal Singh (Noticee no. 4)	Chairman	5	5
Mrs. Saroj Devi Kothari	Member	5	5

32. Regarding the liability of the independent directors for the acts of commission and omission of a company reference may be made to Regulation 25(5) of the LODR Regulations which provides that an independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through processes of board of directors, and with his consent or connivance or where he had not acted diligently with respect to the provisions contained in these regulations. As discussed in previous paragraphs, the Company has been found to be in violation of Regulations 33(1)(c), 34(3) and Reg. 48 of LODR Regulations and Section 21 of SCRA, 1956. In respect of the aforesaid violations by the Company, I note that Noticee no. 2 to 6 have already been found to have violated Regulation 4(2)(f)(ii)(6) & (7) and 4(2)(f)(iii)(3), (6) & (12) of LODR Regulations. I note that Noticee nos. 4, 5 and 6, being the independent Directors of JMD and being part of the audit committee of JMD reviewed the financial statements of JMD, and approved the financials of JMD as part of the board of directors of JMD. Failure to raise any concern regarding the financials of JMD, as member of the audit committee as well as the board of directors of JMD, shows that these directors did not act diligently with respect to the provisions contained in the LODR Regulations. Therefore, the contention raised by Noticee no. 5 is not tenable.

33. In view of the aforesaid violations committed by JMD and its directors/CFO, I find that directions under Sections 11(1), 11(4), 11A and 11B (1) of the SEBI Act, 1992 and Section 12A (1) of SCRA, 1956, needs to be issued.

34. SCN in the matter, also calls upon the Noticee no. 1 to 8 to explain as to why appropriate penalty be not imposed upon it under Sections 15HA, 15A(a) and 15HB of SEBI Act, 1992 and Section 23E and 23H of SCRA, 1956, for the violations alleged in the SCN. Extract of these penalty provisions, as existing at the relevant time is as under:

Extract of Section 15HA and 15HB of SEBI Act, 1992:

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,—
(a) to furnish any document, return or report to the Board, fails to furnish the same 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

Penalty for fraudulent and unfair trade practices.

15HA.If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher

Penalty for contravention where no separate penalty has been provided.

15HB. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

Extract of Sections 23E and 23H of SCRA, 1956:

Penalty for failure to comply with provision of listing conditions or delisting conditions or grounds.

23E. If a company or any person managing collective investment scheme or mutual fund, fails to comply with the listing conditions or delisting conditions or grounds or commits a breach thereof, it or he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees.

Penalty for contravention where no separate penalty has been provided.

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

35. From the analysis of the aforesaid penalty provisions, I find that penalty under Section 15HB of the SEBI Act, 1992, is attracted and not the penalties under Section 15HA of SEBI Act, 1992 and Sections 23E of SCRA, 1956. I note that Section 15HA of the SEBI Act, 1992 provides for imposition of penalty in case of fraudulent and unfair trade practices committed by any person. As in the present case, it has been found that violations of Section 12A(a), (b) & (c) of SEBI Act, 1992 and provisions of PFUTP Regulations, 2003 have not been made out, therefore, penalty under Section 15HA of SEBI Act, 1992 is not attracted against the Noticees. I also not that Section 23E of SCRA, 1956 provides for penalty for failure to comply with, *inter alia*, listing conditions by "a company or any person managing collective investment scheme or mutual fund". In the present case, it has been found that JMD is in violation of listing conditions, however, JMD is not managing any collective investment scheme or mutual fund, so as to attract penalty under Section 23E of SCRA, 1956. I find that penalty under Section 23H of SCRA, 1956 is also not attracted in the case of Noticee no. 2 to 8, as Section 23H provides for penalty for failure to comply with any provision of SCRA, 1956, the rules or articles or bye-laws or the regulations of the recognised stock exchange or directions issued by SEBI for which no separate penalty has been provided. As the Noticee no. 2 to 8, being directors/CFO of JMD, have been found to be in violation of LODR Regulations, which is a regulation framed under the SEBI Act, 1992 and SCRA, 1956 by SEBI and not the "regulation" of stock exchange, as contemplated under Section 23H, and there is no violation of direction of SEBI directions alleged against these Noticees, therefore, Section 23H is not attracted in the case of Noticee no. 2 to 8. JMD has been found to have violated provision of Section 21 of SCRA Act, 1956, therefore, provisions of Section 23H is attracted qua Noticee no. 1

36. I find that for the violation of LODR Regulations, JMD is liable for imposition of penalty under Section 15HB of the SEBI Act, 1992 which provides for penalty for failure to comply with any provision of SEBI Act, 1992, the rules or the regulations made or directions issued by SEBI for which no separate penalty has been provided. Since, LODR Regulations are framed under SEBI Act, 1992 also

and penalty provisions under SEBI Act, 1992 (i.e. 15A to 15HA) does not separately provide for any penalty for violation of LODR Regulations, therefore, for violation of LODR Regulations by JMD, as found in this order, penalty under Section 15HB is attracted against JMD. Similarly, Noticee no. 2 to 8 who are the directors/CFO of JMD are liable for imposition of penalty, for the violations of LODR Regulations which are found to be committed by them, under Section 15HB of the SEBI Act, 1992.

37. For imposition of penalty under the provisions of the SEBI Act, 1992, Section 15J of the SEBI Act,1992 provides as follows:

> "**Factors to be taken into account while adjudging quantum of penalty.15J.** While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
> (b) the amount of loss caused to an investor or group of investors as a result of the default;
> (c) the repetitive nature of the default.
>
> Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section."

38. I find that material available on record does not mention the amount of disproportionate gain or unfair advantage made as a result of the default. I find that the material available on record does not indicate the amount of specific loss caused to investors or group of investors as a result of the default by Noticee no. 1 to 8. However, I note that the violations have occurred over a period of three financial years. I also note that Noticee no. 5 and 6 were the independent directors of JMD.

Directions and monetary penalties:

39. In view of the aforesaid findings and having regard to the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Section 11(1), 11(4), 11(4A), 11A and 11B(1), 11B(2) of SEBI Act, 1992 and Section 12A(1) of SCRA, 1956 read with Section 19 and Section 11(2)(j) of SEBI Act, 1992 and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties)Rules, 1995, direct as under:

(i) The Noticee no. 1, 2, 7 and 8, are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of one (1) year, from the date of coming into force of this order;

(ii) The Noticee no. 3, 5 and 6, are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of six (6) months, from the date of coming into force of this order;

(iii) The Noticee no. 1 to 8, are hereby imposed with, the penalties, as specified hereunder:

Noticee No.	**Name of Noticees**	**Provisions under which penalty imposed**	**Penalty Amount (In Rupees)**
Noticee no. 1	M/s. JMD Ventures Limited	Section 15A(a) of SEBI Act, 1992.	10 Lakh (Ten Lakh)
		Section 15HB of SEBI Act, 1992 and Section 23H of SCRA, 1956.	30 Lakh (Thirty Lakh),
Noticee no. 2	Mr. Kailash Prasad Purohit	Section 15HB of SEBI Act, 1992	15 Lakh (Fifteen Lakh)
Noticee no. 3	Mr. Jagdish Prasad Purohit	Section 15HB of SEBI Act, 1992	3 Lakh (Three Lakh)

Noticee no. 5	Mr.Mohit Jhunjhunwala	Section 15HB of SEBI Act, 1992	2 Lakh (Two Lakh)
Noticee no. 6	Ms. Saroj Devi Kothari	Section 15HB of SEBI Act, 1992	1 Lakh (One Lakh)
Noticee no. 7	Mr. Pravin T Sawant	Section 15HB of SEBI Act, 1992	5 Lakh (Five Lakh)
Noticee no. 8	Mr. Shiv Kumar Yadav	Section 15HB of SEBI Act, 1992	1 Lakh (One Lakh)

(iv) The Noticees shall remit / pay the said amount of penalties within 45 days from the date of receipt of this order. The Noticees shall remit / pay the said amount of penalties through either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, or through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT -> Orders -> Orders of Chairman/ Members -> PAY NOW. In case of any difficulties in online payment of penalties, the said Noticees may contact the support at portalhelp@sebi.gov.in. The demand draft or the details/ confirmation of e-payment should be sent to "The Division Chief, CFID-2, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051" and also to e-mail id:- tad@sebi.gov.in in the format as given in table below:

Case Name	
Name of Payee	
Date of Payment	
Amount Paid	
Transaction No.	
Payment is made for: (like penalties/ disgorgement/ recovery/ settlement amount/ legal charges along with order details)	

(v) The proceedings against Noticee no. 4 are disposed of in terms of obervations at para 6;

(vi) The proceedings against Noticee no. 9 are disposed of without any adverse directions, in terms of observations at para 24.

40. The obligation of the Noticees, restrained/ prohibited by this Order, in respect of settlement of securities, if any, purchased or sold in the cash segment of the recognized stock exchange(s), as existing on the date of this Order, are allowed to be discharged irrespective of the restraint/prohibition imposed by this Order. Further, all open positions, if any, of the Noticees, restrained/prohibited in the present Order, in the F & O segment of the recognised stock exchange(s), are permitted to be squared off, irrespective of the restraint/prohibition imposed by this Order.

41. This Order comes into force with immediate effect.

42. This Order shall be served on all the Noticees, Recognized Stock Exchanges, Depositories and Registrar and Share Transfer Agents of mutual funds to ensure necessary compliance.

43. A copy of this Order shall also be forwarded to the Ministry of Corporate Affairs, Reserve Bank of India and Institute of Chartered Accountants of India, along with a copy of the Forensic Audit Report for their information.

Sd/-

ANANTA BARUA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA

Date: September 14, 2021
Place: Mumbai