

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: MADHABI PURI BUCH, WHOLE TIME MEMBER

INTERIM ORDER

Under Sections 11, 11(4), 11A and 11B of the Securities and Exchange Board of India Act, 1992 in the matter of M/s IRIS Mediaworks Limited (PAN: AAACB4506D)

Background of case:

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) was in receipt of 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 has annexed a list of 331 shell companies for initiating necessary action as per SEBI laws and regulations. MCA has also annexed the letter of Serious Fraud Investigation Office (hereinafter referred to as “**SFIO**”) dated May 23, 2017 which contained the data base of shell companies along with their inputs.
2. SEBI as a market regulator is vested with the duty under section 11(1) of the SEBI Act, 1992 (hereinafter referred to as “**SEBI Act**”) of protecting the interests of the investors in securities and to promote the development of and regulations of securities markets by appropriate measures as deemed fit.
3. SEBI was of the view that companies whose names are included as shell companies by SFIO and MCA, were potentially involved in
 - (a) Misrepresentation including of its financials and its business and possible violation of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 (hereinafter referred to as “**LODR Regulations**”) and/or

- (b) Misusing the books of accounts/funds of the company including facilitation of accommodation entries to the detriment of minority shareholders and therefore reneging on the fiduciary responsibility cast on the board, controlling shareholders and key management person (KMP)
4. SEBI was also of the view that investors should be alerted on the possible enforcement action by various authorities leading to potentially significant impact on the price of the stock.
5. Therefore, in the interest of investors, SEBI took the pre-emptive interim measures under section 11(1) of SEBI Act, 1992, in respect of listed shell companies including M/s IRIS Mediaworks Limited (hereinafter referred to as “**IML**” / “**Company**”), vide its letter dated August 7, 2017, based on the view stated at para 3 and 4 above. SEBI placed trading restrictions, on the promoters/directors so that they do not exit the company at the cost of innocent shareholders. In view of the said objective, 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 trading in the scrip. The said measures were initiated by SEBI pending final determination after verification of credentials and fundamentals by the exchanges, including by way of audit and forensic audit if necessary. The measures also envisaged, on the final determination, delisting of companies from the stock exchange, if warranted. By virtue of these measure, trading in scrip was not suspended but allowed under strict monitoring so that investors could take informed investment decisions, till SEBI and Exchanges completed their detailed examination of such companies.
6. Pursuant to the same, Bombay Stock Exchange Limited (hereinafter referred to as “**BSE**”) vide notice dated August 7, 2017, to all its market participants, initiated actions envisaged in the SEBI letter dated August 7, 2017 in respect of all the listed securities as identified by MCA and communicated by SEBI, with effect from August 8, 2017.

7. 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 the company like company's compliance requirement with Companies Act, whether company is a going concern and its business model, status of compliance with listing requirements, etc.
8. IML vide its letter dated August 21, 2017 had made a representation *inter alia*, submitting as under:
- The foundation of the company is based on the fundamentals of good business and ethical practices and company do not fall into any criteria of being a 'shell' company.
 - The company was established in the year 1992. The company is an integrated Media and Entertainment company engaged in broadcasting, content development and its delivery via satellite. IML is a media technology platform provided and deliver high quality information technology solutions in media and related industries.
 - In April 2009, the company launched "*Punjabi TV*", the world only Punjabi language general entertainment channel in United States of America which was aired through Dish Network between the years 2009 to 2014.
 - The promoter and executive director MR. Rajendra Sharad Karnik has vast experience in strategic management, business administration and corporate governance. He holds over two decades of experience in the media and entertainment industry.
 - The turnover of the company is as under:

<i>Amount in Rs. Crores</i>				
<i>Turnover of IML</i>				
Year ended	31.03.2017	31.03.2016	31.03.2015	31.03.2014
Turnover Amount in Rs.	94.63	100.59	92.47	89.88

- Annual reports of the company for the year ended 2013-14, 2014-15, 2015-16 is enclosed.
- Audited financial statement of the company for the financial year ended 2016-17 is enclosed.

- (h) Vide letter dated 17.08.2017 to BSE, the company had filed auditors certificate alongwith with all the requisite data/details/documents. The same is also enclosed.
 - (i) The company is not a 'Shell' company and erroneously the name had been included in the list of suspected 'shell' companies by SEBI vide Notice dated 07.08.201 and BSE vide its Notice dated 07.08.2017.
 - (j) The company prayed that its name be removed and expunged from the list of suspected 'shell' companies.
9. In the meantime, aggrieved by the aforesaid letters dated August 7, 2017 issued by SEBI and BSE, IML filed an appeal No. 204 of 2017 before the Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT"). The Hon'ble SAT vide order dated August 23, 2017 directed the following:-

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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....”

10. The Hon'ble SAT in the matter of *J. Kumar Infra Projects Limited vs. SEBI* dated August 10, 2017 held that the measures taken by SEBI vide its letter dated August 07, 2017 was in the nature of quasi-judicial order and the same has been passed with out investigation. Without prejudice to the powers enumerated in section 11(1) of SEBI Act, SEBI has been granted

power under section 11(4) and 11B of SEBI Act, 1992 to pass order in the interests of investors or securities market by taking any of the measures enumerated therein either pending investigation or inquiry or on completion of such investigation or inquiry. The inquiry under section 11B of the SEBI Act can also be caused to be made by SEBI.

11. SEBI vide letter dated August 28, 2017 had advised IML to provide following information:

- (a) Summary of dealings of the Company with or through Mr. Shirish Chandrakant Shah, either directly or indirectly, including the nature and quantum thereof. Provide details of the all transactions along with supporting documents.
- (b) Details of Association of the company, whether direct or indirect, with Shirish Chandrakant Shah.
- (c) Details of employees on the rolls of the Company, their respective roles, remuneration received qualifications and experience for the job. Details of Provident Fund contributions made by the Company for the aforesaid employees. For ease of furnishing the information, broad categories of roles: Blue collar, Junior management, Middle management, senior management, may be given in a consolidated manner.

Hearing and Reply:

12. Pursuant to the decision of Hon'ble SAT that the communication of SEBI dated August 7, 2017 is in the nature of quasi-judicial order, SEBI vide communication dated September 01, 2017, granted an opportunity of hearing to IML on September 04, 2017. Mr. Prakash Shah, Advocate, Authorized representative (AR) appeared for IML and made oral submissions. AR was advised to submit the following information latest by September 07, 2017:

- (a) Complete response as sought vide SEBI letter dated August 28, 2017 regarding summary of transactions either directly or indirectly with Mr. Shirish Shah.
- (b) Details of employees and employer's PF contribution statement for the last 6 months.
- (c) Bank statements of the company for the period 2015-16.
- (d) Details of Sales for the period 2015-16 (shown as Rs. 94 CR).

- (e) Details of top 10 clients and their contribution in the sales or clients contributing at least 50 percent of Sales whichever is more along with the supporting sales agreements/contracts (please avoid submitting invoices, challans, delivery receipts etc.)
- (f) Details of Non-current assets as on March 31, 2016 (shown as Rs. 140 CR)
- (g) Details of Trade and Advances as on March 31, 2016
- (h) Details of other current assets as on March 31, 2016
- (i) Details of transactions with M/S. Pratik Diamonds.
- (j) Sales Tax and VAT returns.

The company was asked to provide the link of each entry [as mentioned in points 12(f) to (i)] with the company's business, its benefits to the company and particulars of counter party of such transactions.

13. Vide email dated September 05, 2017 IML was advised to furnish the aforesaid information by September 07, 2017.

14. IML vide its letter dated September 04, 2017 submit the information sought by the SEBI's letter dated August 28, 2017, which are as under:

- (a) Reply to query 1 & 2: The Company had no financial dealings with Mr. Shirish Chandrakant Shah. However, in the year 2010, company had consulted various financial advisors for exploring various options to raise funds. Mr. Shirish Chandrakant Shah was one of the financial advisors consulted by the company. Mr. Shirish Chandrakant Shah had voluntarily rendered his service w.r.t. funds raised by way of issuance of Equity shares through preferential allotment. However, no remuneration was paid to Mr. Shirish Chandrakant Shah by the company.
- (b) Reply to query 3: The Company had 28 employees during the Financial Year (FY) 2014-15, 12 employees during the F.Y. 2015-16 and 6 employees during the F.Y. 2016-17. The list of employees was submitted. Provident funds details were not furnished.

15. IML vide its letter dated September 08, 2017 submit the information sought by SEBI's at the time of hearing and vide email dated September 05, 2017, which are as under:

- (a) Reply to query 1: Company did not have any financial dealings with Mr. Shirish Shah. However in the year 2010, Company had consulted various financial consultants including Mr. Shirish Shah for exploring various fund raising options. Mr. Shirish Shah suggested various products like Convertible Equity Warrants/ Preferential Issue of Equity Shares against traditional fund raising options like debt. He had voluntarily rendered his services w.r.t. funds raised by way of issuance of Equity shares through preferential allotment.
- (b) Reply to query 2: There has been no contribution either on the part of the employee or employer towards Provident Fund in the last six months as the said requirement was not applicable to the company.
- (c) Reply to query 3: The Copy of the bank statements for the financial year 2015-16 has been enclosed.
- (d) Reply to query 4: In the financial year 2015-16, the Company recorded sales of Rs. 100,41,48,978. The said sales were made to M/s Empower India Limited.
- (e) Reply to query 5: In the financial year 2016-17, the Company recorded total sales of Rs. 90,87,89,588/-. The said sales were made to M/s Empower India Limited - Rs. 46,97,83,854/- (51.69 % of total sales) and M/s Milap Trading Private Limited - Rs. 43,90,05,734/- (48.31% of Total Sales).
- (f) Reply to query 6: As on March 31, 2016, the total Non-current Assets stood at Rs.139,63,79,084/-. The Non- current assets consist of:
 - (i) *Tangible and Intangible Assets:* These have direct relation in the overall operations of the Company. The tangible assets include various equipments that are necessary for the business of the company namely Computer, Editing systems, Encryption System, FCP Machines, Air Conditioner, Payout equipments, Payout and Studio Equipments, Refrigerator, Satellite Server, Television, Tapeless Server. The Intangible assets are the Intellectual Property rights created/acquired by the Company

over the years in the course of business namely Channel Launch Show, Film Rights, TV Serial. These have direct relation to the business of the Company

- (ii) *Non-Current Investments:* The Company invested in securities of various entities in order to acquire strategic stake with a long term view.
- (iii) *Long Term Loans and Advances:* The Long Term Loans and Advances consist of advance Profession Tax paid for the employees and advances given to various entities in the ordinary course of business.
- (iv) *Other Non-Current Assets:* The Other Non-Current Assets consist of Deposit paid to VAT authorities, Security Deposit given to M/s Pratik Diamonds Private Limited towards lease of office premises. The recovery of the same is pending due to a dispute, withholding tax and other advances given in the ordinary course of business.
- (g) Reply to query 7: As on March 31, 2016, total trade advances stood at Rs. 67,91,37,490/- Trade advances form part of the Other Non-Current Assets mentioned above. The said advances were made in the ordinary course of business to various parties with a view to make strategic investments and diversification in the long term.
- (h) Reply to query 8: As on March 31, 2016, the Other Current Assets stood at Rs. 53,87,248/- Out of the above an amount aggregating to Rs. 15,99,066/- was towards statutory payments such as VAT and TDS. Balance was paid as advance towards goods and services to be purchased from various parties.
- (i) Reply to query 9: The Company had leased office premises for its registered office from M/s Pratik Diamonds. Pursuant to the same the Company had given security deposit. However, due to a dispute the recovery of the said amount is pending.
- (j) Reply to query 10: The Copies of VAT returns are herewith enclosed

16. Pursuant to SEBI's letter dated August 9, 2017, BSE submitted its report dated September 01, 2017, stating that, Company has submitted the auditor certificate from Agarwal Desai & Shah, Chartered Accountants certifying that company has filed income tax returns for last three financial years and there are 8 disputes / appeals pending before CIT (A) AY 2008-09 to AY 2015-16, aggregating to Rs.2.03 cr. The company has complied with applicable provisions of

Companies Act, 2013 during last 3 years, except for non-filing of Form – 5 for increase in authorized share capital for FY 2013-14, 2014-15, 2015-16. The company is a going concern. There are no default in any loans with any bank / financial institutions. The company has bank account with Corporation Bank and HDFC Bank. The company had complied with all requirements of listing agreement for financial years 2014-15, 2015-16 and 2016-17. However, no specific recommendation was made by BSE.

17. Further, BSE vide email dated September 01, 2017 has advised the company to submit (a) Latest bank statement of HDFC bank and Corporation bank from April 2017 to till date and (b) clarify as to under which provision of Provident Fund Act company is exempt from applicability of provident fund.

Consideration:

18. On perusal of the materials available on record, the following prima facie/potential issues arise for consideration.

- (a) Whether there is prima facie evidence of misrepresentation including of its financials and/or its business and possible violation of LODR Regulations by the company.*
- (b) Whether there is prima facie evidence to show that the company is misusing the books of account/funds including facilitation of accommodation entries to the detriment of minority shareholders and therefore the board, controlling shareholders and KMP are reneging on the fiduciary responsibility cast on them.*
- (c) In view of the determination on the above issues, pursuant to SAT Appeal and the order of SAT in the said appeal, whether, in view of the representation of the Company, the action envisaged in SEBI letter dated August 7, 2017 needs reconsideration.*

19. On the basis of documents available on record, my observations on above issues are as under:

Issue No. 1. *Whether there is prima facie evidence of misrepresentation including of its financials and/or its business and possible of violation of LODR Regulations by the company.*

Issue No. 2. *Whether there is prima facie evidence to show that the company is misusing the books of account/funds including facilitation of accommodation entries to the detriment of minority shareholders and therefore the board, controlling shareholders and KMP are reneging on the fiduciary responsibility cast on them.*

20. Based on the replies given by the company in response to SEBI's queries, prima facie observations are as under:

- (a) From the Annual Report 2015-16, it is observed that out of the total assets of Rs. 148.39 crore, Rs. 65.99 crore is shown as investment in share application money and approximately Rs. 67 crore as Trade advances without any specific details. Substantial funds of the company are locked up in apparently non-revenue generating activities which is detrimental to the interest of shareholders.
- (b) The company has fixed assets of Rs. 96.98 lakhs (Rs. 32.06 lakhs tangible and 64.91 intangible) in F.Y. 2015-16. The auditor in its report for the F.Y. 2015-16 mentioned that the assets have not been verified by the management during the year. Thus the true value of these assets is suspect.
- (c) It is observed that the company recorded total sales of Rs. 100.41 crores in F.Y. 2015-16 and the trade receivables have increased by Rs. 5.08 crores only in F.Y. 2015-16 year on year (2014-15), so it may inferred that the company should have received Rs. 95.33 crore cash from total sales recorded in F.Y. 2015-16 or from previous years receivables. From the bank statement submitted by the company, it is observed that in HDFC Bank an amount of Rs. 49.74 lakhs was credited during F.Y. 2015-16 and in Corporation Bank an amount of Rs. 3.11 lakh was credited during the F.Y. 2015-16 i.e. the total amount credited in the

bank account of the company during the F.Y. 2015-16 was only Rs. 0.53 crores when the actual receipt from the sales recorded by the Company should have been Rs. 95.33 crores.

- (d) Further, the company's recorded sales of Rs. 100.41 crores in F.Y. 2015-16 was to only one entity i.e. M/s Empower India Limited, which is also one of the companies out of 331 identified by MCA as a shell companies.
- (e) The company in the F.Y. 2016-17 recorded total sales of Rs. 90.87 crore which were made to M/s Empower India Limited (51.69% of total sales) and M/s Milap Trading Private Limited (48.31% of total sales).
- (f) Company had not provided any documents in support of the following balance sheets items which were asked at the time of hearing and vide email dated September 05, 2017:
 - (i) Supporting sales agreements/contracts for recorded sales in the F.Y. 2015-16.
 - (ii) Details of Non-current assets as on March 31, 2016
 - (iii) Details of Trade and Advances as on March 31, 2016
 - (iv) Details of other current assets as on March 31, 2016

21. From the above, I note the following:

- (a) An amount of Rs. 65.99 Crores shown as investment in share application money *prima facie* appears to be an accommodation entry.
- (b) True value of fixed assets of Rs. 96.98 Lakhs is suspect.
- (c) Bank statement submitted by IML did not support the financials of IML.
- (d) Company had not submitted documents in support of sales agreements/contracts for recorded sales in the F.Y. 2015-16, details of Non-current assets, Trade & Advances and other current assets as on March 31, 2016.

22. Therefore, *prima facie*, there is evidence of misrepresentation by the company and violation of LODR Regulations. There is also *prima facie* evidence that there was misuse of the books of

accounts / funds of the company. The directors & KMPs have also failed to discharge their fiduciary responsibility. The company is also liable for the prima facie violations observed.

Issue No. 3. *In view of the determination on the above issues, pursuant to SAT Appeal and the order of SAT in the said appeal, whether, in view of the representation of the Company, the action envisaged in SEBI letter dated August 7, 2017 needs reconsideration.*

23. In view of the prima facie observations on the misrepresentation by the company and misusing of books / funds, the persons who are in control of the company and the directors of the company are prima facie liable for action by SEBI and should not be permitted to exit the company at the cost of innocent shareholders.
24. The findings in this order have been rendered on the basis of the prima facie evidence available at this stage. Detailed examination / forensic audit needs to be undertaken to unearth the entire extent of violations.
25. Prior to the action as envisaged in SEBI's letter dated August 07, 2017, the scrip was trading in XT group of BSE with applicable price band in trade to trade settlement. Pending, enquiry/ audit, it is appropriate to revert the scrip in the said XT group of BSE with applicable price band in trade to trade settlement.
26. In view of the above, I am of the view that following urgent interim actions are required to be taken, pending further enquiry/audit.

INTERIM ORDER

27. In the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 11, 11(4), 11A and 11B read with Section 19 of the Securities and Exchange Board of India Act, 1992, hereby, modify, subject to para 27(iv) of this order, the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by Stock Exchanges, against M/s IRIS Mediaworks Limited as under:

- i. The trading in securities of IML shall be reverted to XT group of BSE with applicable price band in trade to trade category.
- ii. Exchange shall appoint an independent auditor to conduct forensic audit of IML for verification, including the credentials/financials of IML.
- iii. The promoters and directors in IML are permitted only to buy the securities of IML. The shares held by the promoters and directors in IML shall not be allowed to be transferred for sale, by depositories.
- iv. The other actions envisaged in SEBI's letter dated August 07, 2017 in para 1 (d), as may be applicable, and the consequential action taken by Stock Exchanges shall continue to have effect against M/s IRIS Mediaworks Limited.

28. Accordingly the representation dated August 21, 2017 is disposed of.

29. The above directions shall take effect immediately and shall be in force until further Orders.

30. The prima facie observations contained in this Order are made on the basis of the prima facie material available on record. In this context, M/s IRIS Mediaworks Limited is advised to file its reply/objections to this interim order. The Company, within 30 days from the date of receipt of this Order, may file its reply, if any, to this Order and may also indicate in the reply whether it desires to avail an opportunity of personal hearing on a date and time to be fixed on a specific request made in that regard, if any. In the event of M/s IRIS Mediaworks Limited failing to

file reply or requesting for an opportunity of personal hearing within the said 30 days, the preliminary findings of this Order and ad-interim directions at para 27 above shall stand confirmed against M/s IRIS Mediaworks Limited automatically, without any further orders.

31. Copy of this Order shall be forwarded to the recognised stock exchanges & depositories for information and necessary action.

32. A copy of this Order shall also be forwarded to the Ministry of Corporate Affairs and Serious Fraud Investigation Office for their information.

-Sd-

DATE: SEPTEMBER 12, 2017

PLACE: MUMBAI

MADHABI PURI BUCH

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA