

**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 Edynamics Solutions Limited**

---

**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 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 (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 Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “SEBI Act”) to protect 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 the companies identified as shell companies by SFIO and MCA were potentially involved in:
  - (a) Misrepresentation including that of its financials and its business and possible violation of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (hereinafter referred to as “LODR Regulations”) and/or
  - (b) Misusing their respective books of accounts/funds 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 in respect of listed shell companies including Edynamics Solutions Limited (hereinafter referred to as "ESL" / "Company"), vide its letter dated August 7, 2017, based on the view stated at para 3 and 4 above. SEBI placed trading restrictions on 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 letter dated August 7, 2017 also placed the scrip in the trade to trade category with limitation on the frequency of trades 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. The said measures were initiated by SEBI pending final determination after verification of credentials and fundamentals by the stock 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 measures, trading in the scrip was not suspended but allowed under strict monitoring so that investors could take informed investment decisions till SEBI and stock exchanges complete their detailed examination of such companies.
6. Pursuant to the above, BSE vide notice dated August 7, 2017, addressed 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.
7. On August 09, 2017, SEBI further advised the Stock 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 with Companies Act, whether company is a going concern, its business model, status of compliance with listing requirements, etc.
8. Vide its letter dated August 22, 2017, ESL made a representation, *inter alia*, submitting as under:
  - a) We are not a "Shell Company" by any stretch of imagination. We have about 2079 shareholders and our scrip is being actively traded in BSE Limited. We are in Compliance of all applicable Regulations and have not received any notice in this regard.
  - b) The Directions issued by SEBI in terms of letter under reference are completely uncalled for and without any basis. We have never ever indulged in any malpractices in the stock market.

- c) Before placing our stocks in GSM Stage VI, the stock exchanges ought to have initiated the process of verification of our credentials, which is the mandate of para (c) of directions of SEBI dated August 7, 2017. Serious prejudice has been caused because of this to the Company and its Shareholders. Such a drastic action, without verification and cause, by SEBI, is not only unwarranted but also a misplaced action.
  - d) The Company is having an eminent set of Independent Directors forming part of the Board of Directors.
  - e) The Company came out with an Initial Public Offer in the year 2013, The Company presently has about 2000 equity shareholders. The Company was listed as a SMALL AND MEDIUM ENTERPRISE COMPANY at the SME Platform of BSE Limited and migrated to BSE Main Board after due verification of BSE with all the Listing Compliances.
  - f) The Company has been regularly filing the requisite returns/forms under the Companies Act, 2013 with the Ministry of Corporate Affairs.
  - g) The Company has not been availing financial assistance from Banks/Financial Institutions/NBFCs.
  - h) The Company is a Tax Paying Company since last so many years;
  - i) The Company has never received any Compliant from its Investors;
  - j) There is no Case pending before any authority including Income tax Authorities;
  - k) The Turnover of the Company has been significantly good in the past i.e. 265.86, 344.94 and 550.25 lakh in the financial years 2016-17, 2015-16 and 2014-15.
  - l) In view of the above, it is incomprehensible as to how and on what basis our Company has been named in the list of Shell Companies. The directions are thus misconceived and there is no authenticity or credibility for any data based on which such an action would have been recommended. As stated earlier, this action has put a lot of our investors in difficulty, as our equity shares are widely held and actively traded on the stock exchanges.
  - m) Further, the Company has already submitted the Auditors Certificates along with Requisite Documents with BSE Ltd as requested by BSE vide its Letter dated 10th August, 2017. BSE has also acknowledged deposit of the requisite documents,
  - n) In view of the above, the company has prayed that SEBI to forthwith withdraw the directions in so far as they relate to our Company and direct that the Company be placed back under normal trading.
9. In the meantime, aggrieved by the aforesaid letters/notice dated August 7, 2017 issued by SEBI and BSE, ESL filed an appeal No. 203 of 2017 before Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT"). Hon'ble SAT vide order dated August 23, 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 investigating the matter and initiate appropriate proceedings if deemed fit.”*

10. Hon'ble SAT in the matter of *J. Kumar Infra Projects Limited vs. SEBI* (order 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 without 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. Vide letter dated August 28, 2017, SEBI sought the following information from ESL:

- 1. Summary of dealings of the Company with or through Abdul Wahid Educational and Charitable Trust, either directly or indirectly, including the nature and quantum thereof. Provide details of the all transactions along with supporting documents.*
- 2. Details of Association of the company, whether direct or indirect, with Abdul Wahid Educational and Charitable Trust.*
- 3. 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.*

12. In response thereto, ESL vide letter dated August 31, 2017 submitted that it had not entered into any transaction with Abdul Wahid Educational and Charitable Trust in the last 3 years. ESL also provided the details of employees of its rolls (8 in number) as on July 31, 2017.

13. Pursuant to SEBI's letter dated August 9, 2017 (mentioned above), BSE has submitted its report on August 31, 2017 wherein it has *inter alia* observed the following:

*"Company has submitted the auditor certificate from M/s. G. P. Keshri & Associates, Chartered Accountants (Copy attached as Annexure IV). As per the Auditor Certificate, company has:*

- a) filed income tax returns for all the last 3 years*
- b) complied with Companies Act requirements up to March 31, 2017*
- c) company is a going concern*
- d) there are no default in any loans with any bank / financial institutions.*

*The company has not submitted auditor certificate confirming company's compliances with erstwhile listing agreement/ SEBI (LODR) Regulations, 2015. Accordingly, Exchange vide email dated August 30, 2017, has advised the company to submit the same on urgent basis.*

*It may be noted that as per the Exchange records, company is in compliance with key clauses of erstwhile listing agreement / SEBI (LODR) Regulations, 2015."*

**Hearing and Reply:**

14. Pursuant to the decision of Hon'ble SAT, an opportunity of personal hearing was granted to ESL on September 4, 2017 when its authorized representative appeared and made oral submissions. ESL was asked to provide the information / response on the following points (supported by documentary evidence) as early as possible and latest by September 6, 2017:
- 1. Date on which, current management took over from previous management?*
  - 2. Complete details of transactions with Abdul Wahid Educational and Charitable trust with specific reference to the transaction dated July 25, 2011 irrespective of the fact that it was carried out by the present management or the erstwhile management of the company; the reasons for the said transaction and whether requisite approvals were taken in that regard; whether the said transaction was reflected in the books of accounts of the company?*
  - 3. Details of utilization of funds raised from the public including the funds raised through IPO in the year 2013 by the company?*

4. Details of loans and advances and non-current investments (totaling Rs. 31CR) given by the company? Link of these loans & advances and non-current investments with Company's business and their benefit to the company with supporting documents.
- 5 An amount of Rs. 2.2 CR has been shown towards stock purchase. Provide details of the same.
6. Details of domain name of companies' ecommerce website?
7. Bank account statements for financial year 2016-17
8. Details of preferential issue made by the company, if any, and utilization of proceeds of the same?
9. Provide audited accounts of the company for FY 2016-17
10. For the period April-June 2017 – a declaration from the promoters regarding the number of shares of the company bought and sold by them.

SEBI also sent an e-mail to the company on September 5, 2017 asking for the above information.

15. ESL filed its response to the queries / information sought from it during the hearing vide e-mail dated September 13, 2017, *inter alia*, submitting as under:

1. The Company was originally incorporated as PRIVATE LIMITED COMPANY in New Delhi as "Edynamics Solutions Private Limited" on 12th July, 2000 under the Companies Act, 1956 vide certificate of incorporation issued by the Registrar of Companies, National Capital Territory of Delhi Et Haryana. Our Company was subsequently converted in to a public limited company on 21st March, 2013 and consequently name was changed to "Edynamics Solutions Limited" vide fresh certificate of incorporation dated 21st March, 2013 issued by the Registrar of Companies, National Capital Territory of Delhi fit Haryana. The present management assumed the controlling interest in the company in July 2013.
2. With respect to the transaction entered with Abdul Wahid Educational and Charitable Trust ("The Trust"), this is to submit that on the basis of the record made available by the previous Management, no records of any transaction were found in the records provided to us by the previous Management. Further, we have requested the previous Management to provide the complete records of all transaction details of which were not provided to us. Till now we have not received any reply from them.
3. IPO proceeds were utilized as per the Objects disclosed during Initial Public offer of the Company in the June, 2013;
4. Details of loans and advances and non-current investments (totalling Rs.31Cr.) given by the company.

5. Details of amount of Rs. 2.2 Cr has been shown towards stock purchase.
6. Name of Domain of E Commerce website is [www.ednicsolution.com](http://www.ednicsolution.com);
7. Bank Statement of the Company for the period covering 1 April, 2016 to 31 March, 2017 - Already submitted at your office, acknowledgement copy is enclosed as Annexure II;
8. Details of preferential issue made by the company:
- I..Details of Utilization of proceeds raised from the preferential Issue in July, 2015. The Company raised Rs. 2.06 crore through the issue of 17,18, 500 Equity Shares of Rs. 10 each at a price of Rs.12 per share including a premium of Rs.2 per share were utilized according to the objects of the issue for which funds were raised.
- II Details of Utilization of proceeds raised from the preferential Issue in September, 2016. The company raised Rs. 2.145 crore through the issue of 21,45,000 Equity Shares of Rs. 10 each at a price of Rs. 10 per share were utilized according to the objects of the issue for which funds were raised.
9. Copy of Audited Financials for the Financial year 2016-17.
10. Undertakings w.r.t. promoters: This is to confirm that the present promoter of the Company have not dealt in the equity shares of the Company i.e. Edynamics Solutions Limited during the period from April, 2017 to June, 2017- Copy of Demat Account Statement received from one of the promoters dated 6 September, 2017 and Copy of the Shareholding Pattern for the quarter ended on 31<sup>st</sup> March, 2017 and 30<sup>th</sup> June, 2017 are enclosed.
11. We have represented our matter before the Ministry of Corporate Affairs since the matter as referred to SEBI by MCA. A copy of representation made to MCA is also closed.
12. Our Company, its management is fully committed towards its more than 2000 shareholders and other stakeholders.
13. The company prayed that its name be removed from the list of shell Company and resume of our Trading at the earliest as shareholders are suffering.
16. It is noted that the company has not provided any supporting documents to the following queries raised during the course of hearing:
- i) Details of utilization of funds raised from the public including the funds raised through IPO in the year 2013 by the company?
  - ii) Details of loans and advances and non-current investments (totalling Rs. 31CR) given by the company? Link of these loans & advances and non- current investments with Company's business and their benefit to the company with supporting documents.
  - iii) An amount of Rs. 2.2 CR has been shown towards stock purchase. Provide details of the same.

- iv) *Details of preferential issue made by the company, if any, and utilization of proceeds of the same?*

**Consideration of issues:**

17. On perusal of the material available on record, the following issues arise for consideration.

- (a) Whether there is *prima facie* evidence of misrepresentation by ESL including that of its financials and/or its business and is there any 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 accounts / 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 and the order of SAT in the aforesaid appeal, whether, in light of the representation of the Company, the action envisaged in SEBI letter dated August 7, 2017 needs reconsideration.

18. 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 by ESL including that of its financials and/or its business and is there any possible 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 accounts / 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.*

19. Based on the material available on record, *prima facie* observations are as under

- i) The company came out with an IPO in the year 2013 and one of the object of the issue as mentioned in the prospectus was to open 30 stores and to purchase tangible assets including software worth Rs. 2.85 crore. It is noted that the company does not have any land & building and has shown the total rent expense of only Rs. 30,000 for the F.Y. 2015-16. Further, the company has only 8 employees. In view of these facts, it appears that the company has not taken any steps towards opening of 30 stores as it had



disclosed at the time of the IPO. Also, on analysis of Annual Reports for F.Y. 2013-14 to 2015-16, it is observed that there is no addition in tangible assets including software. From the above, it appears, from the available record, that the company has not used the IPO proceeds for the objects of the IPO. It may be noted the Company did not provide the details of utilization of funds raised from the public including the funds raised through IPO in the year 2013 by the company, despite seeking the information specifically.

- ii) The company in its prospectus mentioned that Rs. 7 crore will be used as a working capital so that the goods can be purchased at cash discount of 1.5% -2%. The company in its F.Y. 2015-16 have made purchase for Rs. 2.95 crore, so going by the disclosure made by the company in its prospectus, there is no requirement for the company to purchase the product *on credit* since the company from its IPO had kept huge amount as working capital. But on analysis of Annual Report for 2015-16, it is observed that the company has used the funds earmarked for working capital to give loans and advances. Therefore, it *prima facie* appears that there has been a misuse of the IPO proceeds by the company.
- iii) Further, the company in its prospectus had mentioned that it will use 125 lacs in F.Y. 2013-14 and Rs. 75 lacs in F.Y. 2014-15 for brand building. On analysis of Annual Report for F.Y. 2013-14 and 2014-15, it was observed that the company has made expenditure of Rs. 1.54 lacs only in the F.Y. 2014-15.
- iv) On analysis of Annual Report for F.Y. 2015-16, it is observed that out of total assets of the company Rs. 39.75 crore, Company has shown Rs. 8 crore as Short term loans and advances, Rs. 18.92 crore as long term loans and advances, 10.08 crore as non-current investment without any specific details. In this regard, ESL was given an opportunity to provide the details but it has failed to furnish the same. Therefore, It appears that substantial portion of the total assets i.e. 37 crore out of 39.75 crore is locked up in an unexplained manner.

20. It is noted that during the hearing on September 4, 2017, the authorized representative of ESL was asked to provide ESL's response on certain queries and to submit certain information (mentioned above). He was also asked to provide documentary evidence in support of ESL's response. However, on a perusal of ESL's reply which was filed today (i.e. with a delay of 6 days), it is noted that it has only filed partial information / response. Regarding the utilization of funds raised through IPO and preferential allotments, it has merely stated that the utilization was done in accordance with the objects of the respective issues. It is observed that no document or detail has been provided in support of the said statement regarding utilization of IPO proceeds and preferential issue proceeds. Further, ESL was also asked to provide details relating to '*loans and advances and non-current*

*investments*’ and *‘amount shown towards stock purchase’* as reflected in the financial statements of ESL. In response thereto, instead of providing any details or documents in support thereof, ESL drew the reference back to its financials. Thus, I find that ESL has failed to provide a satisfactory response to the queries / information sought from it during the hearing.

21. In view of the above, there is prima facie evidence that ESL has not deployed the proceeds of the IPO in accordance with the objects of the IPO. I note that during the hearing, ESL was asked certain specific queries / information in that regard along with relevant documents to substantiate the same, but it has failed to submit any satisfactory response to the same. In view of the above, I find that there is prima facie evidence, by adverse inference, of misuse of funds by ESL. Further as already observed in para 19(ii), there is prima facie case for misuse of the IPO proceeds by the company.
22. Further, it is noted that a substantial portion of the total assets of the company i.e. 37 crore out of 39.75 crore is locked up and the company has failed to provide a satisfactory explanation in that regard. Thus, while there is no *prima facie* evidence of misrepresentation of books of accounts by the company, there arises a suspicion regarding the genuineness of its books of accounts.

**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 misuse of funds by the company, 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. Further, on account of the above mentioned misuse of funds and suspicion regarding misrepresentation of books of accounts by the company, it is also imperative that in the interest of investors, inter alia, the financials of the company be independently audited to establish their genuineness and to trace the end-use of funds raised by ESL from public.
25. Prior to the action as envisaged in SEBI's letter dated August 07, 2017, the scrip of ESL was trading in T group of BSE with applicable price band in trade to trade settlement.

Pending, enquiry/ audit, considering the interest of public shareholders involved in ESL, I find it appropriate to revert the scrip in the said T 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 audit/further enquiry.

### **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 the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by Stock Exchanges, against Edynamics Solutions Limited and direct as under:

- i. The trading in securities of ESL shall be reverted to T group of BSE with applicable price band in trade to trade settlement.
- ii. Exchange shall appoint an independent auditor to conduct forensic audit of ESL for verification, including the credentials/financials of ESL and to trace the end-use of funds raised by ESL from public.
- iii. The promoters and directors in ESL are permitted only to buy the securities of ESL. The shares held by the promoters and directors in ESL 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 ESL.

28. The representation of the company dated August 22, 2017 is accordingly disposed of.

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

30. The findings in this order have been rendered on the basis of the prima facie evidence available at this stage. However, detailed examination / forensic audit needs to be undertaken to unearth the entire extent of violations. In this context, Edynamics Solutions Limited is advised to file its reply/objections to this interim order, if any, within 30 days from the date of receipt of this Order and may also indicate 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. In the event Edynamics Solutions Limited fails to file its reply or to request for an opportunity of personal hearing within the said 30 days, the preliminary findings of this Order and ad-interim directions shall stand confirmed against Edynamics Solutions Limited automatically, without any further orders.

31. Copy of this Order shall be forwarded to the recognized stock exchanges for information and necessary action. 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 13, 2017**  
**PLACE: MUMBAI**

**MADHABI PURI BUCH**  
**WHOLE TIME MEMBER**  
**SECURITIES AND EXCHANGE BOARD OF INDIA**