

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: MADHABI PURI BUCH, WHOLE TIME MEMBER**

ORDER

Under Sections 11, 11(4), 11A and 11B of the Securities and Exchange Board of India Act, 1992 in the matter of Frontier Informatics Ltd.

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 their respective financials and businesses and possible violations 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 actions 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 Frontier Informatics Ltd. (Hereinafter referred to as “FIL” / “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 28, 2017, FIL made a representation, *inter alia*, submitting as under:

“During the course of our 31 year journey, we have provided employment for more than 2000 persons from various parts of the country. We have been listed with the Bombay Stock Exchange for the last 22 years and have been meeting all compliance requirements.

We do not owe any amounts to Banks or any other financial institutions. We do not have any dues, worth mentioning, to any statutory bodies barring small disputed amounts to Income Tax department which are pending with Andhr Pradesh High court and income Tax Appellate Tribunal.

We have never been involved in rigging, insider trading or any other prohibited or fraudulent activities at any time and our record with BSE itself speaks about the company's conduct over the years.

The Company has also filed up to date Returns before the Registrar of Companies and Income Tax Department. The Income Tax Return Acknowledgment of the previous three years of the Company are hereto enclosed. The following table provides a brief of the Appellant's financial position for the previous three years.

		<i>FY 15-16</i>	<i>FY 14-15</i>	<i>FY 13-14</i>
<i>S. No.</i>	<i>PARTICULARS</i>	<i>(Rs. in lakhs)</i>	<i>(Rs. in lakhs)</i>	<i>(Rs. in lakhs)</i>
<i>1</i>	<i>Total Income</i>	<i>4.83</i>	<i>4.89</i>	<i>4.30</i>
<i>2</i>	<i>Gross Profit/ (Loss)</i>	<i>(44.52)</i>	<i>(12.47)</i>	<i>(15.43)</i>
<i>3</i>	<i>Depreciation</i>	<i>3.71</i>	<i>10.63</i>	<i>9.73</i>
<i>4</i>	<i>Operating Profit/ (Loss)</i>	<i>(48.23)</i>	<i>(25.82)</i>	<i>(25.16)</i>
<i>5</i>	<i>Net Profit/ (Loss) after tax</i>	<i>(48.23)</i>	<i>(25.82)</i>	<i>(25.16)</i>
<i>6</i>	<i>Earnings per share</i>	<i>(0.36)</i>	<i>(0.19)</i>	<i>(0.19)</i>
<i>7</i>	<i>Net Worth</i>	<i>(186.46)</i>	<i>(138.23)</i>	<i>(112.41)</i>

In view of deterioration in US business, accumulated losses and taking into account the interest of the shareholders, the company has undertaken a restructuring and rejuvenation exercise for the company. Towards this goal, Reduction of Capital was undertaken in 2013 and a formal proposal was submitted to Bombay Stock Exchange in November, 2014. In this process, Bombay Stock Exchange, SEBI, Shareholders and Andhra Pradesh High court were all involved. As you are aware, the process is on the verge of completion and documents required for re-listing have already been submitted.

At this stage, inclusion of our name in the list of 'Shell' companies will adversely affect the interests of 11,200 shareholders, who have stood by the company over more than two decades. In fact this is the time they have been looking forward to with some hope and putting the company in GSM VI under the false implication as Shell Company at this juncture is not called for and is not justified.

Under the circumstances, we request you to remove our name from the list of 'Shell' companies and restore our status to normal trading and protect the interest of a large body of shareholders.”

9. In the meantime, aggrieved by the aforesaid letters/notice dated August 7, 2017 issued by SEBI and BSE, FIL filed an appeal No. 218 of 2017 before Hon'ble Securities Appellate Tribunal (hereinafter referred to as “SAT”). Hon'ble SAT vide order dated September 11, 2017 directed the following:-

“2. As the appellant has already made a representation to BSE against the said ex-parte order dated August 07, 2017, with a copy to SEBI, 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 four 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 measure 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. Pursuant to above mentioned SEBIs letter dated August 9, 2017 (mentioned above), BSE has submitted its report on September 20, 2017 wherein it has *inter alia* observed the following:

“ Company vide its letter dated September 9, 2017 submitted auditor certificates issued by M/s. Niranjan & Narayan, Chartered Accountant ... certifying the following:

- a) Company has filed annual income tax return for last 3 years upto AY 2016-17. Further, the auditor has intimated that there is disputes for three different Assessment Year between 2000-01 to 2002-03 aggregating to Rs. 0.78 Crs is outstanding, against which appeal has been filed by the company.*
- b) Complied with the compliance requirements of the Companies Act and Annual returns filing during last three years.*
- c) Company is a going concern.*
- d) Company does not have any dues to Banks/ Financial Institutions.*
- e) Company has been regular in its submission of quarterly & other periodical returns to the Exchange & company yet to file its shareholding pattern & secretarial report on reconciliation of share capital for the quarter ended June 2017.*

As per the Exchange record it is observed that company has not complied with filing of annual report for year ended 2016, corporate governance for quarter ended December 2015, shareholding pattern for quarter ended December 2015 & June 2017 and secretarial audit report for quarter ended June 2017.

*Barring above, the submission made by the company prima facie appears to be in order.
...”*

Hearing and Reply:

12. Pursuant to the decision of Hon'ble SAT, an opportunity of personal hearing was granted to FIL on September 20, 2017 when its authorized representative appeared and made oral submissions. FIL was asked to provide the information / response on the following points (supported by documentary evidence) as early as possible and latest by September 28, 2017:

1. *Compliance with filing of annual report for year ended 2016, corporate governance for quarter ended December 2015, shareholding pattern for quarter ended December 2015 & June 2017 and secretarial audit report for quarter ended June 2017.*
2. *What is the management understanding about the sharp increase in the volume of shares (Trades) on March 30, 2017?*
3. *The company has an outstanding matter with Income Tax department for an amount of Rs.35.00 lakhs. Whether the same was disclosed in Audited Financial Statements for the financial year 2016-17?*
4. *The company has a liability towards dividend distribution tax of Rs.9.75 lakhs pertaining to FY 1999-2000 and an amount of Rs.10.91 lakhs as an interest payable on dividend tax. Explain the status of the same.*
5. *Does the management have any plan for delisting and/or what is the management's belief about the sustainability of the company?*
6. *Whether company owns any immovable property.*
7. *Short term loans and advances stood at Rs.30.89 lakhs as at March 31, 2017. Furnish the full details, link with business, schedule of payment of principal and interest i.e. payment terms, whether paid in time or not and association with promoter/director of the company. Whether any of the transactions was a related party transaction? if so, explain whether the procedure relating to related party transactions was followed.*
8. *A statement showing the outstanding dues (both disputed and undisputed) of the company.*

SEBI also sent an e-mail to the company on September 25, 2017 asking for the above information.

13. *FIL filed its response to the queries / information sought from it during the hearing on September 28, 2017. The query-wise response of FIL is as under:*

Query 1 - Compliance with filing of annual report for year ended 2016, corporate governance for quarter ended December 2015, Shareholding pattern for quarter ended December 2015 & June 2017 and Secretarial audit report for quarter ended June 2017

- *The Company in its reply enclosed the copy of annual report for 2015-16, submission of corporate governance for quarter ended December 2015 vide letter dated 15th January, 2016 and submission of shareholding pattern for quarter ended December 2015 vide letter dated 15th January, 2016. It is also stated that the above*

documents were filed before BSE within the prescribed timelines. With respect to shareholding pattern and secretarial audit report for quarter ended June 2017, it is stated that they have been filed by the company only after trading permission was issued by BSE vide their notice dated 11th September, 2017. Due to the reason stated above, the filing was deferred, under intimation to BSE.

Query: 2 - What is the management understanding about the sharp increase in the volume of shares (Trades) on March 30, 2017?

- The Company had, as on March 30, 2017, 1,33,10,400 shares with more than 11,200 shareholders. There were 31 buyers and 35 sellers involving volume of 60,695 shares during the week 17-03-2017 to 24-03-2017. Further there were 35 buyers and 39 sellers involving volume of 2,34,600 shares during the week 24-03-2017 to 31-03-2017. The total shares traded during the two weeks sums up to 2,95,295 shares.
- As seen from the shareholding pattern of the Company, the Category of shareholders as reported under 'Public' are neither related to nor connected to any of the promoters in any way. It is observed from trading details submitted for the period 24.03.2017 to 31.03.2017 that one particular share holder by name 'Kalpesh Kanaiyalal Parekh' sold 1,10,000 shares from one DP Id and purchased the same 1,10,000 shares from a second DP Id. The volume constitutes 46.88% of the trade during the subject week and 37.25% of the overall volume traded for the said two weeks.
- The shareholder 'B E Investment and Finance Private Limited' holding 53,000 shares had been holding shares in the Company for the past several years and could have sold the shares to exit from the Company and book loss.
- The trading during the stated period of March 2017, as it has always been with the Company, was market driven and was not in any way related to or affected by the promoters/management of the Company. Considering the size of equity and number of shareholders, the volume is not abnormal and is prompted only by market conditions. The volumes in trading during March 2017 could have been a little higher for the reason that some shareholders would have wanted to book losses for the tax purposes.

- Further, the Company had been working on the scheme for Reduction of Capital and the entire step by step process is in public domain/BSE portal. As the process was drawing to an end, informed public investors may find reason to invest in the shares of the Company under the hope that there could be a turnaround in the Company, which also could have prompted purchases.
- In view of the above stated facts and reasons no adverse inference may be drawn in this regard.

Query 3 - The company has an outstanding matter with Income Tax department for an amount of Rs.35.00 lakhs. Whether the same was disclosed in Audited Financial Statements for the financial year 2016-17?

- The amount of Rs 35.00 Lakhs being shown as refund receivable in the financial statements of the Company relates to the Financial Year 1 999-2000 and is inclusive of interest receivable estimated on conservative basis. Initially an amount of Rs. 24,52,965/- was recorded in the books of accounts of the Company in the said Financial Year 1999-2000 and was claimed as refund. However, there was an addition of Rs 75,75,000/- made by disallowing interest paid to Andhra Pradesh Industrial Development Corporation Ltd. ("APIDC") for the reason that the said liability was discharged, not by payment but by way of allotment of shares of the Company. APIDC had subsequently sold away those shares and made substantial profit, over and above the interest amount.
- The issue is still pending before Honorable High Court of Andhra Pradesh and Telangana in ITA No. 239 of 2008 and is likely to come for hearing during the next two/three months.
- The amount is already recorded in the books of accounts of the Company and is reflected in the Audited Financial Statement of the Company under Note 20: Short Term Loans & Advances' and under the sub head 'Balances with Government Authorities'.

Query 4 - The Company has a liability towards dividend distribution tax of Rs.9.75 lakhs pertaining to FY 1999-2000 and an amount of Rs.10.91 lakhs as an interest payable on dividend tax. Explain the status of the same.

- The company paid the Dividend Distribution Tax amounting to Rs 9.00 lakhs on 17.03.2016. The Company had preferred a petition before the Chief Commissioner of Income Tax ("CCIT"), Hyderabad for waiver of interest on arrears of the said Dividend Distribution Tax. Pending the disposal of said petition, the amount was reflected as a contingent liability in the notes to accounts, forming part of the Audited Financial Statements of the Company till end of Financial Year 2016. Since, the Honorable CCIT had disposed of the Company's petition vide his order dated 10.01.2017 rejecting the said waiver petition, the Company shall pay the disputed amount in due course and ensure that the same be reflected in the financial statements of the Company appropriately in future.

Query 5 - Does the management have any plan for delisting and/or what is the management's belief about the sustainability of the company?

- It is to be noted that, with the objective of reviving the operations of the Company, the Management of the Company has pursued the Scheme for Reduction of Capital in year 2014 and in the process has also obtained approval of the shareholders for the said Reduction of Capital on September 30, 2015. Also, the said scheme was approved by the High Court of Andhra Pradesh and Telangana in year 2016 and the Company has thereafter obtained the certificate from Ministry of Corporate Affairs confirming the said order on August 25, 2016. Moreover, BSE vide its letter dated March 30, 2017 has also granted its approval for listing of the equity shares of the Company pursuant to said reduction of capital.
- In view of above, it is submitted that, since the entire process of reduction in capital is completed and the Management of the Company is confident about rejuvenating the operations in the near future bringing value to the shareholders, it does not contemplate voluntary delisting.
- Also, in this regard, it could significantly be noted that the company proposes to initiate multifold drive to achieve turn around. The management has shortlisted some high net worth individuals who are interested in contributing to the Share Capital of the company. Once the working capital resources are augmented, the Company can take up projects for achieving sizable turnovers. The Company has software products in the areas of Health Care, Library Management and

Hospitality. It only requires technical updating in some areas so as to render them meet latest market expectations. Besides, the Company has the technical competence and domain knowledge to undertake any project that may emerge in the market place. The Company had presence in international markets in USA, UK and Switzerland, which also shall be worked upon, soon after the company improves on its working capital resources.

Query 6 - Whether company owns any immovable property?

- The Company does not own any immovable property presently.

Query 7 - Short term loans and advances stood at Rs.30.89 lakhs as at March 31, 2017. Furnish the full details, link with business, schedule of payment of principal and interest i.e. payment terms, whether paid in time or not and association with promoter/director of the company. Whether any of the transactions was a related party transaction? If so, explain whether the procedure relating to related party transactions was followed.

- Out of the said Rs 30.89 lakhs Rs. 24,52,965/- is the amount recorded in books as Income tax receivable for the year 1999-2000. Further the balance amounts consist of Tax deducted at source for other years and other amounts. The Company does not have any amounts paid to related parties requiring to be reported as per provisions of section 186 of the Companies Act, 2013.

Query 8 - A statement showing the outstanding dues (both disputed and undisputed) of the company.

- The amounts owed by the Company under the head of 'Short Term Borrowings' include amounts received from the Directors and their associates who have been contributing funds, without any interest, over the past few years towards meeting the day to day expenses of the Company and in discharging its liabilities. Liabilities under other heads include statutory and other dues. Company submitted a list of all the amounts owed by the company totaling to Rs. 43,06,711.

In view of the above the company prayed that there is no justification in declaring the Company to be a shell company and therefore, kindly revoke the Impugned Order

passed against the Company and restore the status of the Company to normal trading by removing its name from the list of suspected shell companies.

Consideration of issues:

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

- (a) Whether there is *prima facie* evidence of misrepresentation by FIL 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.

15. 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 FIL 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.*

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

- i) The company enclosed abridged annual report for 2015-16 with their reply, however it did not provide any supporting documents to show that the documents were filed with BSE on time. Thus, in this regard, an email dated October 04, 2017 was sent to BSE to furnish/confirm the event dates. The relevant details are as follows:

Particulars (filed with BSE)	Reply from BSE
Annual Report for 2015-16	Soft copy not submitted. Hardcopy received on December 13, 2016.
Corporate Governance for quarter ended December 2015	Report not submitted in the format prescribed in SEBI circular CIR/CFD/CMD/ 5 /2015 dated September 24, 2015. The company has submitted the report in old format on January 16, 2016.
Shareholding pattern for quarter ended December 2015	Report not submitted in the format prescribed in SEBI circular CIR/CFD/CMD/13/2015 dated November 30, 2015. The company has submitted the shareholding pattern in old format on January 16, 2016.

With respect to shareholding pattern and secretarial audit report for quarter ended June, 2017, it appears from the documents submitted by the company that after receiving the intimation dated September 11, 2017 from BSE, the company has filed the shareholding pattern for quarter ended June 2017 on September 26, 2017 and filed reconciliation of share capital audit along with secretarial audit report with BSE on September 23, 2017.

- ii) Since the entire process of reduction in capital is completed and the Management of the Company is confident about rejuvenating the operations in the near future bringing value to the shareholders, the company is not contemplating voluntary delisting.
16. In view of substantive documentation and explanations provided by the company during the hearing and in its reply post hearing in respect of all the queries, I do not find any *prima facie* evidence nor suspicion of misrepresentation by the company, misuse of books of accounts / funds of the company or violation of LODR Regulations.

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.*

17. In absence of *prima facie* evidence / suspicion of misrepresentation by the company, misuse of the books of accounts / funds of the company or violation of LODR Regulations, there is no reasonable ground to further verify the financials of the Company warranting an audit. I

am, therefore, of the considered view that the actions envisaged in SEBI's letter dated August 7, 2017 against FIL are liable to be revoked.

Order

18. 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, revoke the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by Stock Exchanges against Frontier Informatics Ltd.
19. Accordingly, the representation dated August 28, 2017 made by FIL is disposed of.
20. Copy of this Order shall be forwarded to the recognized stock exchanges for information and necessary action.
21. 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: OCTOBER 5, 2017
PLACE: MUMBAI

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