

**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 Ritman Infra Ltd.**

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***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 Ritman Infra Ltd (hereinafter referred to as "RIL" / "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, SEBI 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) In the meantime, aggrieved by the aforesaid letters/notice dated September 13, 2017 issued by SEBI and MSEI, RIL filed an appeal No. 238 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. After the matter was argued for some time, counsel for the appellant seeks to withdraw the appeal with liberty to make a representation to SEBI against the said ex-parte order of SEBI dated 7th August, 2017.*

*3. Accordingly, we permit the appellant to withdraw the appeal with liberty to make a representation to SEBI within two weeks from today.*

*4. SEBI is directed to dispose of the representation that may be made by the appellant as expeditiously as possible and in any event within a period of four weeks from the date of receiving of the representation. 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."*

- 9) Subsequent to the order of Hon'ble SAT, vide its letter dated September 15, 2017, RIL made a representation, *inter alia*, submitting as under:

*"1. At the outset we would like to submit that we are shocked and perturbed that the name of our Company viz. Ritman Infra Limited is included in the list of suspected 'Shell' companies. We would like to humbly submit that foundation of our company is based on the fundamentals of good business and ethical practices and we do not fall into any criteria of being a 'Shell' company.*

*2. The present representation is preferred against the Notice dated 07.08.2017 bearing Reference No. MSEI/SURV/5415/2017 passed by MSEI. By the said Notice, the trading of our Company is moved to Stage of VI of the Graded Surveillance Measure ("GSM") with immediate effect i.e. with effect*

from 08.08.2017, without considering peculiar facts and circumstances of the case as mentioned below. Hereto annexed and marked as Annexure - "I" is the copy of the aforesaid MSEI's Notice dated 07.08.2017.

3. It is mentioned in the said Notice dated 07.08.2017 that the said step of moving the securities of our Company in Stage VI of the Graded Surveillance Measure ("GSM") with immediate effect has been taken pursuant to letter dated 07.08.2017 bearing Reference No.SEBI/HO/ISD/OW/P/2017/18183 issued by SEBI. The said communication is encoded to the notice issued by MSEI. In the said Notice dated 07.08.2017, it is mentioned that list of 331 shell companies, as identified by the Ministry of Corporate Affairs ("MCA") has been forwarded to SEBI and thereupon directions have been issued by SEBI. However, purpose and intent for such classification is not mentioned therein.

4. Before proceeding further, we would like to give our brief background as under:

(a) Lancing Investment Ltd. was taken over by our Company in and around 2009 and thereafter it was renamed as Ritman Infra Ltd.

(b) The core activity / business of our Company is Construction and Land Development.

(c) It is worth noting that our Company is ISO 9001:2008, 14001:2004 and OHSAS 18001:2007 certified company based in

5. Our Company has been ensuring due compliances of various Requirements as arising out of the listing agreement. Hereto annexed and Marked as Annexure – "3" is a copy of the Shareholding Pattern of our Company and as duly approved by MSEI on 12.09.2017.

6. Further, as on date no investors complaint is pending against our Company as can be seen from the print out of Report of the MSEI of the complaints received against Trading Members for the years 2016-2017 and 2017-2018, as updated on 01.09.2017 and downloaded from website of MSEI, copies whereof are hereto annexed and marked as Annexures - "4" and "5" respectively.

7. By letter dated 28.08.2017, the Managing Director of our Company gave an undertaking to the MSEI that there is no litigation pending or show cause notice or order passed by the Income Tax Department or Serious Fraud Investigation

Office received by our Company. A copy of the said undertaking is annexed hereto and marked as Annexure - "6".

8. Our Company has also been regularly filing their Income Tax Returns. Hereto annexed and marked as Annexures - "7" to "9" are the copies of the Income Tax Returns filed for the Assessment Years 2014-2015, 2015-2016 and 2016-2017. The unaudited financial results of our Company for the quarter ended 30.06.2017 is enclosed herewith and marked as Annexure - "10".

9. We humbly submit that shifting of securities into GSM will be a dent of the image of our Company and its working will be affected severely as the business community, investors and society at large will look at the company from different view and mind set resulting into vanishing of future business growth plans.

10. We further submit that our Company, Promoters/Directors and/or employees have not received any communication in the recent past from investigation and/or surveillance department of the Stock Exchange and/or SEBI seeking and information or clarification in respect of allegation of Shell Company. Hence, we fail to understand as to how aforesaid criteria of Shell Company are applied to our Company.

11. We submit that we have complied with all rules and regulations laid down by MSEI and/or SEBI and/or MCA from time to time and our Company has not violated any provisions of law. In fact the Notice from MSEI and/or the Letter from SEBI dated 07.08.2017 does not even mention the specific provisions of law, which we have been alleged to have violated so as to be liable for shifting the securities of our Company in GSM.

12. We submit that the action of the SEBI i.e. shifting of securities to GSM will have severe repercussions of the functioning of our Company and will result into irreparable harm, loss and damage to its stakeholders, more particularly the present shareholders of our Company.

13. On perusal of the aforesaid documents it is amply clear that we are not a 'Shell' company and erroneously our name has been included in the list of suspected 'Shell' companies by SEBI vide letter dated 07.08.2017.

*14. In view of the aforesaid, we humbly pray that the directions passed by the SEBI vide letter dated 07.08.2017 bearing Reference No. SEBI/HO/ISD/OW/P/2017/ 18183 be quashed and set aside qua our Company and that our Company's name be removed and expunged from the list of suspected 'Shell' companies."*

10) Thereafter, SEBI's vide its letter no. ISD/OW/P/2017/23336/1, dated September 26, 2017 asked RIL to provide specifically the following information:

- 1. Summary of dealings of the Company/directors of the company with or through Mr. Mahendra Sethia, Mr. Arun Banerjee, Mr. Gautam Ghosh, Mr. Ravi Shankar Pandey and Mr. Pachu Das, 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/ directors of the company, whether direct or indirect, with Mr. Mahendra Sethia, Mr. Arun Banerjee, Mr. Gautam Ghosh, Mr. Ravi Shankar Pandey and Mr. Pachu Das;*
- 3. Details of Association of the company/ directors of the company, whether direct or indirect, with the companies as per Annexure A.*
- 4. 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.*

11) In terms of the said letter, the above information was to be submitted by RIL latest by October 3, 2017. However, it failed to submit any response to the said letter by October 3, 2017 and even thereafter.

12) Pursuant to above mentioned SEBI's letter dated August 9, 2017 (mentioned above), MSEI has submitted its report on October 9, 2017.

13) 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.

***Hearing and Reply:***

14) Pursuant to the decision of Hon'ble SAT, an opportunity of personal hearing was granted to RIL on October 3, 2017 when its authorized representative appeared and made, *inter alia*, the following submissions:

- i) The company is compliant with all regulations. It is an active company and has been filing tax returns regularly.
- ii) It is registered with several government and private organizations for various projects.
- iii) It is a debt free company. It has no idea why it has been categorized as a shell company.

15) During the hearing, RIL also submitted a letter dated October 3, 2017 whereby it reiterated its submissions made vide the representation dated September 15, 2017 and also provided explanation on the business being carried out by the company and its achievements. RIL was asked to provide the information / response on the following points (supported by documentary evidence) as early as possible and latest by October 8, 2017:

1. *The Company has taken over "Lancing Investment Ltd (LIL)" in the year 2009. An explanation from Promoters of RIL from whom they have taken over LIL or negotiations happened.*
2. *During the hearing, the AR elucidated that RIL has recently ventured into Hospitality services in New York. Furnish details of stake in New York Hotel and the Articles/documents submitted with Exchange (Metropolitan Stock Exchange of India*

Limited) to accommodate the business. If there was any amendment to Memorandum of Association (MOA) & Articles of Association (AOA), furnish the date and amended document(s).

3. As per Secretarial Audit Report for financial year (FY) 2016-17, the company has not complied with the provisions of Companies Act, 2013 regarding appointment of company secretary and independent director. An explanation for violating the same shall be furnished.

4. The consolidated financial statements for FY 2016-17 include one subsidiary whose financial statements are not audited and were considered for consolidation based on certification from company management. An explanation be furnished on the same.

5. During the hearing, the AR elucidated that they have filed a case against Indus Ind Bank. Furnish the supporting papers of pending dispute with Indus Ind Bank.

6. Assets worth Rs.62.33 lakhs related to subsidiaries are reported in consolidated financial statements. Furnish the full list of assets along with the purchase order or backup documents.

7. Separate affidavits by Mr. Parag Majmudar and Ms. Falguni Majmudar mentioning "Whether at any point they know or had spoken to Mr. Mahendra Sethia, Mr. Arun Banerjee, Mr. Gautam Ghosh, Mr. Ravi Shankar Pandey and Mr. Pachu Das; if yes, details of what it was regarding"

8. From the records, it appears that promoter group are holding more than 98% of shares. An explanation for noncompliance with minimum public shareholding requirements as per regulation 38 of SEBI (LODR) Regulations, 2015 be furnished.

9. From the financials, it appears that subsidiaries don't have any employee cost, rental, electricity expenses, etc. An explanation, why do they exist, do they have any operation or are they empty.

10. In FY 2016-17, the company has converted an amount of Rs.3.37 crore worth stock in trade into non-current investments. Furnish the full list, breakup along with supporting documents.

11. In FY 2016-17, the company has reported an amount of Rs.3.32 crore as an inventories. Furnish the full list, breakup along with supporting documents.

12. In FY 2016-17, an amount of Rs.9.94 crore has been reported as advance against properties. Explain what this relates to and furnish the full list, breakup along with underlying contracts/documents.

13. Bank statement of the company highlighting the receipts of above amounts (point no.11).

14. In FY 2016-17, an amount of Rs.1.52 crore has been reported as trade receivables. Furnish the full list (breakup) and backup documents (such as sales agreement, etc.).

15. In FY 2016-17, an amount of Rs.5.60 crore (as per standalone financial statements) (includes Rs.4.75 crore as an advance against properties) has been reported as short term loans and advances. Furnish the full list (breakup), backup documents and also bank statement highlighting the receipts/payments.

SEBI also sent a reminder e-mail to the company on October 9, 2017 asking for the above information. SEBI sent another reminder regarding the same on October 10, 2017.

16) The company vide email dated October 09, 2017 has inter alia replied that “Since the hearing was on Tuesday, 3rd October 2017 and there being a holiday in Kolkata on 6th, 7th & 8th October 2017, hence, I have received the documents today evening and the same will be submitted tomorrow”. Thereafter, part reply of company was received vide letters dated October 10, 2017 and part reply was received on October 11, 2017. RIL submitted, *inter alia*, the following response to the above mentioned queries: -

*Query 1: The Company has taken over “Lancing Investment Ltd (LIL)” in the year 2009. An explanation from Promoters of RIL from whom they have taken over LIL or negotiations happened.*

- The Company in its reply dated October 11, 2017 has enclosed the letter of offer document (acquiring 20% from LIL) & share purchase agreements (2 Nos.)

*Query 2: During the hearing, the Authorized Representative (AR) has elucidated that RIL has recently ventured into Hospitality services in New York. Furnish details of stake in New York Hotel and the Articles/documents submitted with Exchange (Metropolitan Stock Exchange of India Limited) to accommodate the business. If there was any amendment to Memorandum of Association (MOA) & Articles of Association (AOA), furnish the date and amended document(s).*

- The Company in its reply dated October 11, 2017 has inter alia stated that *“It does not concern Ritman Infra Limited at the moment”*.

*Query 3: As per Secretarial Audit Report for financial year (FY) 2016-17, the company has not complied with the provisions of Companies Act, 2013 regarding appointment of company secretary and independent director. An explanation for violating the same be furnished.*

- The Company in its reply dated October 11, 2017 has inter alia stated that *“The company had one independent director on board. However, the Board is in the process of identifying independent directors. The Company has not been able to find suitable candidate for company secretary position and the process of appointment would be soon be completed”*.

*Query 4: The consolidated financial statements for FY 2016-17 includes one subsidiary whose financial statements are not audited and considered for consolidation based on certification from company management. An explanation be furnished on the same.*

- No reply.

*Query 5: During the hearing, the AR has elucidated that they have filed a case against Indus Ind Bank. Furnish the supporting papers of pending dispute with Indus Ind Bank.*

- The Company in its reply dated October 11, 2017 has inter alia stated that *“Since Indus Ind Bank didn’t allow us to remit money and thus The Malaysian Persons didn’t work as no one is expected to work without remuneration. We approached Reserve bank of India also. But they didn’t act then we filed a Writ Petition number 26891(w) of 2014 which is still pending in High Court. It is matter of shame for us but we can not do anything in absence of timely regulatory mechanism”*. The company in its reply has also attached the writ petition documents numbering to 302 pages.

*Query 6: Assets worth Rs.62.33 lakhs (CWIP) related to subsidiaries are reported in consolidated financial statements. Furnish the full list of assets along with the purchase order or backup documents.*

- No reply

*Query 7: Separate affidavits by Mr. Parag Majmudar and Ms. Falguni Majmudar mentioning “Whether at any point they know or had spoken to Mr. Mahendra Sethia, Mr. Arun Banerjee, Mr. Gautam Ghosh, Mr. Ravi Shankar Pandey and Mr. Pachu Das; if yes, details of what it was regarding”*

- The company in its reply dated October 11, 2017 has inter alia stated that “ *Affidavit by Mrs. Falguni Majmudar is attached and as informed to you that Mr. Parag Majmudar is not present in India since 26<sup>th</sup> September 2017, it will be possible for us to submit his affidavit once when he returns back on 14<sup>th</sup> October 2017*”.

Query 8: From the records, it appears that promoter group are holding more than 98% of shares. An explanation for non-compliance with minimum public shareholding requirements as per regulation 38 of SEBI (LODR) Regulations, 2015 be furnished.

- The company in its reply dated October 11, 2017 has inter alia stated that “*The promoters of the company are holding less than 75% of the shares*”.

Query 9: From the financials, it appears that subsidiaries doesn't have any employee cost, rental, electricity expenses, etc. An explanation, why do they exist, do they have any operation or they empty.

- The Company in its reply dated October 11, 2017 has inter alia stated that “*Two subsidiaries are incorporated in the current financial year, and will start its full-fledged operations in the near future*”.

*Query 10: In FY 2016-17, the company has converted an amount of Rs.3.37 crore worth stock in trade into non-current investments. Furnish the full list, breakup along with supporting documents.*

- No reply

*Query 11: In FY 2016-17, the company has reported an amount of Rs.3.32 crore as an inventories. Furnish the full list, breakup along with supporting documents.*

- The Company in its reply has provided the list of inventories as follows:

<b>Particulars</b>	<b>Amount in Rs.</b>
WIP for the premises of 14 Syed Amir Ali Avenue, Kolkata – 700017	2,81,75,078.98
WIP for the premises of 18 Canel East Road, Kolkata	21,79,131.28
Stock in Trade (LED Lights, R-Panel, Fittings equipment's, etc.)	29,08,944.42
<b>Total</b>	<b>3,32,63,154.68</b>

*Query 12: In FY 2016-17, an amount of Rs.9.94 crore has been reported as advance against properties. Explain what this relates to and furnish the full list, breakup along with underlying contracts/documents.*

- The Company in its reply has provided the list of advance against properties as follows:

<b>Particulars</b>	<b>Amount in Rs.</b>
Advance received for the premises 10C and 10D Ikenath, Kolkata	74,00,000.00
Advance for 14 Syed Amir Ali Avenue, Kolkata – 700017	6,07,91,072.00
Advances for Kalikapur, DAG 356/406	3,12,16,110.00
<b>Total</b>	<b>9,94,07,182.00</b>

*Query 13: Bank statement of the company highlighting the receipts of above amounts (point no.11).*

- The company has provided the bank statement of State Bank of India, Park Circus branch, A/c. No. 33327494529, HDFC bank, Park Circus branch, A/c No. 50200009534326, Bank of Baroda, SSI Kasba, A/c No. 25600400001688, Bank of Baroda, SSI Kasba, A/c No. 2560020000222, Bank of Baroda, SSI Kasba, A/c No. 25600600003114.

Query 14: In FY 2016-17, an amount of Rs.1.52 crore has been reported as trade receivables. Furnish the full list (breakup) and backup documents (such as sales agreement, etc.).

- The company provided a list in this regard.

Query 15: In FY 2016-17, an amount of Rs.5.60 crore (as per standalone financial statements) (includes Rs.4.75 crore as an advance against properties) has been reported as short term loans and advances. Furnish the full list (breakup), backup documents and also bank statement highlighting the receipts/payments.

- The company provided a list in this regard.

**Consideration of issues:**

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

- 1) Whether there is *prima facie* evidence of misrepresentation by RIL including that of its financials and/or its business and is there any possible violation of LODR Regulations by the company.
- 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.
- 3) 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 RIL 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. Observations from Annual Reports 2016-17, 2015-16 & 2014-15:

- i) The following are noted from the secretarial audit report for the financial year ended March 31, 2016:
  - a. Out of 4 directors, only one independent director is present.
  - b. The company could not have proper composition of Audit Committee and Nomination and Remuneration Committee as required under the provisions of the Companies Act, 2013. This has consequential impacts on all required decisions of the said Committees.
  - c. The company had not appointed Company Secretary in the Audit Period i.e. 2015-16.
  - d. As per the SEBI circular, on the uniform listing agreement, the Company has initiated the process of entering into the fresh listing agreement with the Calcutta Stock Exchange. However till the end of the audit period, the agreement was not executed.
- ii) From the independent auditors report for the year 2015-16, the auditor has emphasized regarding non-provisioning of liabilities arising out of performance obligation of Rs.3,62,59,530/- as in the opinion of management, no demand for the nonperformance would arise in future.
- iii) As per secretarial audit report for the financial year ended March 31, 2015, the Company has same violations as stated at point no. i (a to c) in the year 2014-15 and 2016-17 also.
- iv) From the independent auditors report for the year 2014-15, the auditor has emphasized regarding non provisioning of liabilities arising out of performance obligation of Rs.2,24,78,212/- as in the opinion of

management, no demand for the nonperformance would arise in future and non-provision against investment and other loans and advances from the subsidiary Ritman Strata Chem Sdn Bhd amounting to Rs.64,17,300/- and Rs.31,00,058, respectively as in the opinion of management, that the non-receipt of the financial statement from the subsidiary is only temporary.

- II. RIL has failed to file any response to the following queries that were asked from it during the hearing:
- *The consolidated financial statements for FY 2016-17 include one subsidiary whose financial statements are not audited and were considered for consolidation based on certification from company management. An explanation be furnished on the same.*
  - *Assets worth Rs.62.33 lakhs related to subsidiaries are reported in consolidated financial statements. Furnish the full list of assets along with the purchase order or backup documents.*
  - *Separate affidavits by Mr. Parag Majmudar and Ms. Falguni Majmudar mentioning "Whether at any point they know or had spoken to Mr. Mahendra Sethia, Mr. Arun Banerjee, Mr. Gautam Ghosh, Mr. Ravi Shankar Pandey and Mr. Pachu Das; if yes, details of what it was regarding"*
  - *In FY 2016-17, the company has converted an amount of Rs.3.37 crore worth stock in trade into non-current investments. Furnish the full list, breakup along with supporting documents.*
- III. It is noted that in exercise of the powers conferred upon SEBI under Section 11 (1) & (2) (ia) of SEBI Act, 1992, SEBI had asked for certain specific information vide its letter dated September 26, 2017 (mentioned above). The said information was to be submitted by October 3, 2017, but till date, despite numerous reminders, RIL has failed to submit the complete information sought from it and has thereby violated Section 11 (1) & (2) (ia) of SEBI Act.
- IV. During the hearing, the authorized representative of RIL had elucidated that RIL has recently ventured into Hospitality services in New York. The company was asked to provide specific details in this regard including the Articles/documents submitted with Exchange, respective clauses in MOA and AOA, etc. However, RIL in its reply has submitted that the aforesaid hospitality business does not concern

RIL at this moment. However, it is noted that RIL on its website has announced its association with “Hotel Royal, Old City Hall, Binghampton, New York”. On the basis of this contradiction, it appears that RIL has misrepresented its business to the public.

- V. As noted from the submissions of RIL, it has not appointed any company secretary as required under the Companies Act, 2013. Further, the board of directors of RIL does not have the requisite number of independent directors. These violations have been observed in RIL for three consecutive financial years.
- VI. Mrs. Falguni Majmudar and Mr. Parag Majmudar were specifically asked to file separate affidavits mentioning “Whether at any point they know or had spoken to Mr. Mahendra Sethia, Mr. Arun Banerjee, Mr. Gautam Ghosh, Mr. Ravi Shankar Pandey and Mr. Pachu Das; if yes, details of what it was regarding”. However, instead of filing the affidavit, Mrs. Falguni Majmudar has submitted a mere statement stating that she is not aware of nor does she have any contact with the above named persons. Mr. Parag Majmudar did not even submit a statement to that effect.
- VII. With regard to conversion of an amount of Rs.3.37 crore worth stock in trade into non-current investments in FY 2016-17, the company has failed to furnish the full list, breakup along with supporting documents.
- VIII. The company has failed to provide supporting documents regarding inventories worth Rs.3.32 crore shown in FY 2016-17 and also with regard to advance against properties worth Rs. 9.94 crore. It has only provided a list of the same. Thus, the genuineness of the financials in respect of inventories and advances are suspect.
- IX. With regard to trade receivables, it is noted that an amount of Rs.1.48 crore (97% of total Rs. 1.52 crore) is receivable from 3 entities namely Ritman Fullmark Inks Pvt. Ltd., Silkflex Trexim Pvt. Ltd. & Bengal Cynosure Development Pvt. Ltd., wherein Mr. Parag Majmudar and Ms. Falguni Majmudar are directors. Being a related party transaction, in order to verify whether the figures as to the receivables mentioned in the Annual Report are not misrepresented to the public, SEBI sought for the detailed back up documents. However, the company has

failed to give back-up documents in this regard. The failure to provide the backup documents and relevant details, despite the fact that the Company was given several opportunities, leads to the *prima facie* conclusion that the company has made misrepresentation of the figures as to the trade receivables mentioned in the annual report of RIL. Further, as these transactions are related party transactions, there is a possibility that the funds receivable from the related parties carry low or zero interest rate or have been pending for several years.

- X. Considering the fact that the company has represented in the Annual Report that it has received advances against property to the tune of Rs.9.94 Cr , SEBI in order to verify whether the company has made correct representation to the public on the figures of advances against property, sought for the supporting documents from the Company. However, the company despite getting several opportunities, failed to adduce supporting documents in order to *prima facie* prove that the said figures are correctly represented to the public. Despite seeking the entire details as to the advances, the company failed to provide even the minimum details as to the date of transaction and the counterparty. Further, despite SEBI's request to provide specific details of the payment received by the company by way of identifying the same in its bank statement, the company failed to *prima facie* substantiate the factum of payment by identifying the same in its bank statement. In absence of counterparty details, advances given/received by the company cannot be identified from the bank statements given by the company (without highlighting the receipts/payments). Given this background, the failure of the company to provide the backup documents with regard to advances appearing in its annual report for 2016-17, leads to the *prima facie* conclusion that the Company has misrepresented the figures as to advances against property to the public in its annual report for 2016-17.

20) In view of the above I observe that RIL has been in non-compliance with the provisions of Companies Act regarding appointment of company secretary and independent directors. Also, there is lack of documents to substantiate the figures disclosed in the financials of the company and to establish their genuineness. Further, despite several reminders, both the directors of the company, who were asked to submit the affidavits, have failed to do so. Also, the company/its directors have failed to submit the information along with documentary proof sought by SEBI at the time of hearing and

the information sought vide earlier letter. Thus, there is *prima facie* evidence of misrepresentation of business and financials by the company and a strong suspicion regarding the misuse of books of accounts/funds by the company.

**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.*

- 21) In view of the *prima facie* observations regarding misrepresentation of financials by the company and the suspicion regarding misuse of books of accounts/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.
- 22) Further, on account of the observations regarding misrepresentation of financials by the company and the suspicion regarding misuse of books of accounts/funds by the company, it is also imperative that in the interest of investors, the financials of the company including the financials of consolidating subsidiaries be independently audited to establish their genuineness.
- 23) Pending inquiry/ audit, considering the interest of public shareholders involved in RIL, I find it appropriate to revert the trading in securities of RIL to the status as it stood prior to issuance of letter dated August 7, 2017 by SEBI.
- 24) 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**

- 25) 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 RIL and direct as under:

- i. The trading in securities of RIL shall be reverted to the status as it stood prior to issuance of letter dated August 7, 2017 by SEBI.
- ii. Stock Exchange shall appoint an independent forensic auditor, *inter alia*, to further verify:
  - a) Misrepresentation including of financials and/or business of RIL and consolidating subsidiaries, if any;
  - b) Misuse of the funds/books of accounts of RIL and consolidating subsidiaries, if any.
- iii. The promoters and directors in RIL are permitted only to buy the securities of RIL. The shares held by the promoters and directors in RIL 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 RIL.

26) The 'directors' for the purpose of directions above shall mean and include:

- a) the persons who are acting as directors on the date of this order, or
- b) the persons who were acting as directors of this company as on August 07, 2017, who cease to be director by way of disqualification by any other authority or by way of resignation or by any other means, on or after August 07, 2017.

27) Accordingly, the representation dated September 15, 2017 made by RIL is disposed of.

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

29) 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, RIL 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 reply/objection. In the event RIL 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 RIL automatically, without any further orders.

30) Copy of this Order shall be forwarded to the recognized stock exchanges and depositories for their 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: OCTOBER 13, 2017**  
**PLACE: MUMBAI**

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