

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA**

**CORAM: MADHABI PURI BUCH, WHOLE TIME MEMBER**

**INTERIM ORDER**

**Under Sections 11, 11(4), 11A and 11B of the Securities and Exchange Board of India Act, 1992 in the matter of M/s V B Industries Limited (PAN: AAACV9152B)**

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

- (b) Misusing the books of accounts/funds of the company including facilitation of accommodation entries to the detriment of minority shareholders and therefore reneging on the fiduciary responsibility cast on the board, controlling shareholders and key management person (KMP)
4. SEBI was also of the view that investors should be alerted on the possible enforcement action by various authorities leading to potentially significant impact on the price of the stock.
5. Therefore, in the interest of investors, SEBI took the pre-emptive interim measures under section 11(1) of SEBI Act, 1992, in respect of listed shell companies including M/s V B Industries Limited (hereinafter referred to as “**VBIL**” / “**Company**”), vide its letter dated August 7, 2017, based on the view stated at para 3 and 4 above. SEBI placed trading restrictions, on the promoters/directors so that they do not exit the company at the cost of innocent shareholders. In view of the said objective, SEBI vide the said letter dated August 7, 2017 also placed the scrip in the trade to trade category with limitation on the frequency of trade and imposed a limitation on the buyer by way of 200% deposit on the trade value, so as to alert them trading in the scrip. The said measures were initiated by SEBI pending final determination after verification of credentials and fundamentals by the exchanges, including by way of audit and forensic audit if necessary. The measures also envisaged, on the final determination, delisting of companies from the stock exchange, if warranted. By virtue of these measure, trading in scrip was not suspended but allowed under strict monitoring so that investors could take informed investment decisions, till SEBI and Exchanges completed their detailed examination of such companies.
6. Pursuant to the same, Bombay Stock Exchange Limited (hereinafter referred to as “**BSE**”) vide notice dated August 7, 2017, National Stock Exchange of India Limited (hereinafter referred to as “**NSE**”) vide notice dated August 7, 2017 and Metropolitan Stock Exchange of India Limited (hereinafter referred to as “**MSE**”) vide notice dated August 07, 2017, to all its market participants, initiated actions envisaged in the SEBI letter dated August 7, 2017 in

respect of all the listed securities as identified by MCA and communicated by SEBI, with effect from August 8, 2017.

7. On August 09, 2017, SEBI further advised the Exchanges to submit a report after seeking auditor's certificate, from all such listed companies, providing the status of certain aspects of the company like company's compliance requirement with Companies Act, whether company is a going concern and its business model, status of compliance with listing requirements, etc.
8. VBIL vide its letters dated August 18, 2017 and September 27, 2017 had made a representation to SEBI stating as under:
  - (a) SEBI has not justified in declaring company as Shell Company.
  - (b) SEBI has grossly misused its powers and violated the principle of natural justice and had taken arbitrary actions.
  - (c) The said directions had harmed the reputation of the company and investors are also affected by the said directions.
  - (d) The company had complied with all Listing Regulations requirements and with all annual filing at MCA.
  - (e) The Authorized Capital of the company is Rs. 14,00,00,000 and Paid up Share Capital is Rs 13,10,79,500. Also the net worth of company is Rs.99,64,74,947. The Company has a reserves of Rs. 86,57,28,539 in the F.Y. 2016-17
  - (f) Company had annual turnover of Rs. 1,20,98,87,745 in year 2016-17; Rs 1,45,01,43,336 in the year 2015-16; Rs 23,72,56,273 in the year 2014-15 during the last three years.
  - (g) Company had a profit of Rs. 8,53,444 in the year 2016-17; Rs 44,06,422 in the year 2015-16 ; Rs 20,85,744 in the year 2014-15 during last three years and have also paid tax of Rs 2,68,470 in the year 2016-17; Rs 13,68,050 in the year 2015-16; Rs 6,39,400 in the year 2014-15.

9. In the meantime, aggrieved by the aforesaid letters dated August 7, 2017 issued by SEBI and BSE, VBIL filed an appeal No. 251 of 2017 before the Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT"). The Hon'ble SAT vide order dated October 12, 2017 directed the following:-

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*2. As the appellant has already made a representation to BSE and SEBI against the said ex-parte order dated August 7, 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 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. The Hon'ble SAT in the matter of *J. Kumar Infra Projects Limited vs. SEBI* dated August 10, 2017 held that the measures taken by SEBI vide its letter dated August 07, 2017 was in the nature of quasi-judicial order and the same has been passed 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. SEBI vide letter dated October 10, 2017 had advised VBIL to provide following information:

- (a) Summary of dealings of the Company/its directors/its promoters with or through Mr. Jagadish Purohit, Mr Johar Pal Singh, Mr Vijay Kumar Jain and Ms Saroj Devi Kothari, either directly or indirectly, including the nature and quantum thereof. Provide details of all the transactions along with supporting documents;
- (b) Details of Association of the company/promoters/ its directors, whether direct or indirect, with Mr. Jagadish Purohit, Mr Johar Pal Singh, Mr Vijay Kumar Jain and Ms. Saroj Devi Kothari;
- (c) Details of employees on the rolls of the Company, their respective roles, remuneration received qualifications and experience for the job. Details of Provident Fund contributions made by the Company for the aforesaid employees. For ease of furnishing the information, broad categories of roles: Blue collar, Junior management, Middle management, senior management, may be given in a consolidated manner;
- (d) An undertaking from Shri Johar Pal Singh stating-
- Whether he knows Mr. Jagadish Purohit. If yes, what was the nature of their relationship and whether he was involved in any dealing, directly or indirectly with Mr. Jagadish Purohit and whether Mr. Jagadish Purohit was directly or indirectly involved in any dealing with the Company
  - Confirm whether Shri Johar Pal Singh was performing the role of an independent director of V B Industries Limited both in letter and spirit or whether he was guided by anyone else and if so by whom
- (e) Details of any notices served by any Government agency/Regulatory body to the company/promoters/directors from 2010 till date.

12. VBIL vide its letter dated October 11, 2017 submitted the information sought by the SEBI's letter dated October 10, 2017, which are as under:

- (a) Reply to query 1: Company has not dealt with any of the directors whether directly or indirectly.

- (b) Reply to query 2: There is no dealings of the company with or through Mr. Jagdish Purohit & Mr. Vijay Kumar Jain. Mr. Jagdish Prasad Purohit & Mr. Vijay Kumar Jain is neither Director of the Company nor part of Promoter Group, he is nowhere associated with the company. Mr. Johar Pal Singh and Mrs. Saroj Devi Kothari are associated with, Company as Independent Directors of the Company.
- (c) Reply to query 3: Details of employees on the rolls of the Company, their respective roles, remuneration received, qualifications and experience for the job are enclosed. There are total 6 employees in the company for last 3 years.
- (d) Reply to query 4: Undertaking from Mr. Johar Pal Singh was submitted. He states that he know Mr. Jagdish Purohit as they are common directors in JMD Ventures Ltd. and Unisys Softwares & Holding Industries Ltd. He is not involved in any dealings, whether directly or indirectly, with Mr. Jagdish Purohit. He is non-executive independent director in V. B Industries Ltd. and performing role well both in letter and spirit.
- (e) Reply to query 5: Income tax demand notice was served to the company.

**Hearing and Reply:**

13. Pursuant to the decision of Hon'ble SAT that the communication of SEBI dated August 7, 2017 is in the nature of quasi-judicial order, SEBI vide communication dated October 17, 2017, granted an opportunity of hearing to VBIL on October 24, 2017. VBIL vide letter dated October 24, 2017 requested for adjournment of hearing. Accordingly, SEBI vide communication dated October 24, 2017, granted another opportunity of hearing to VBIL on October 25, 2017. On October 25, 2017, Mr. Amit Shah and Ms. Parinati Jain, Authorized Representatives (hereinafter referred to as "ARs") appeared for M/s V B Industries Limited (hereinafter referred to as "VBIL" / "Company") and made oral submissions which are as under:

- (a) *VBIL is doing business from past 36 years. VBIL got listed on BSE and CSE through direct listing in the year 2015. VBIL had complied with all listing criteria and all due diligence was done.*
- (b) *VBIL is in the business of financing/investment and textiles.*

- (c) There are 6 employees in the company excluding directors. There are approximately 2000 shareholders.*
- (d) Till date company had complied with all requirements of LODR Regulations, annual returns and RoC requirements.*
- (e) Last year, the turnover of the company was approximately Rs. 120 crore.*

*AR was advised to submit the following information along with full backup documentation / documentary evidence latest by October 30, 2017:*

- (a) An affidavit from Mr. Vikash Kothari, ex CMD of VBIL in his personal capacity as well as in his official capacity stating that:
  - (i) Whether he has ever met or spoken to Mr. Jagadish Purohit and if yes, regarding what?*
  - (ii) What is percentage of shareholding of company that he or his family members directly or indirectly control VBIL.*
  - (iii) What is the reason for his resignation?**
- (b) An Affidavit from Mr. Jagannath Pandit, CFO of VBIL in his personal capacity as well as in his official capacity stating that whether he has ever met or spoken to Mr. Jagadish Purohit and if yes, regarding what?*
- (c) Affidavit from Mr. Shyam Sunder or from new managing director of VBIL stating that how long he has been associated with the company and with Mr. Vikash Kothari and in the day to day business of the company who does he consult or seek guidance from, to take the decisions and conduct the business of company.*
- (d) For the company, Audit qualification has classified that Rs. 29 crore worth of inventory is not in the company's name. Provide full explanation of this alongwith back up documentation (third party proof). If inventory is still not in company's name, then why it is not yet rectified.*
- (e) Auditor has observed that interest on loan is not computable. Provide full list of entities to whom the loan has been given along with the amount of the loan and underlying loan documentation (when it was given, due date, interest rate and loan agreement*

- etc.). Also provide bank statements of company for 2 years i.e. FY 2015-16 and 2016-17 in which loan disbursement, return of interest and principal should be marked/highlighted.*
- (f) Auditor has mentioned that in 2016-17, confirmation of balances are not available. The company shall obtain the documents with respect to the confirmation of balances from counterparties and same be submitted to SEBI.*
  - (g) For FY 2016-17, provide detailed breakup by company with amounts and backup documentation (underlying contract/share purchase agreement, etc.) of Revenue/Turnover, Short term loans and advances, trade payables and trade receivables.*
  - (h) Purchase of debtors of 45 lakh for FY 2016-17, provide underlying documentation in this respect.*
  - (i) In cash flow statement there is an increase in current liabilities of Rs. 29 Crore, this appears to be mismatch with balance sheet and needs to be reconcile, explain?*
  - (j) In notes to account 2.13, breakup of turnover is not matching with segment reporting on page 59 of annual report (2016-17). Explain and reconcile the same along with underlying documentation.*

14. SEBI vide email dated October 27, 2017 has also advised VBIL to furnish the aforesaid information by October 30, 2017.

15. VBIL vide its letter dated October 27, 2017 received through email on October 30, 2017 submitted the additional written submission in the matter along with the information sought by SEBI at the time of hearing and vide email dated October 27, 2017, which are *inter alia* as under:

- (a) Company had requested SEBI to provide the copy of MCA letter dated June 09, 2017 on October 25, 2017, which was yet to be received by them.



- (b) The main object of listing is to provide daily exit option to existing investors of the company which is also the fundamental right of all the investors of listed company. By suspending the daily trading SEBI has taken away company's fundamental right of exit option and liquidity of company's investor.
- (c) Company is an active, going concern, reputed law abiding company and is in existence since 36 years. Company is listed at BSE for last 2 years (since 4th May, 2015). Company is listed at BSE under direct listing norms where it had complied and filed all the necessary documents.
- (d) The company has duly complied with all the applicable laws.
- (e) The business activities of the company includes Finance & Investment, Dealing in textile segment & doing trading activities in yarn and textiles products, Investing its funds into the Securities Market, both in listed and unlisted shares, providing loans to corporate and individual.
- (f) Till date there is no regulatory action taken against Company by SEBI of any nature.
- (g) With respect to reply of query (a), (b) and (c) asked at the time hearing, Company had submitted the affidavits from Mr. Vikash Kothari, Ex CMD of VBIL, Mr. Jagannath Pandit, CFO of VBIL and Mr. Shyam Sundar Parasramka MD of VBIL.
- (h) With respect to reply of query (d) asked at the time hearing, company had referred to note 2.9 on page 53 of Annual report and stated that inventories as on 31.3.2017 was Rs 90.02 lakhs and as on 31.3.2016 was Rs 29.92 crores. Inventory of Rs 29.92 crores as on 31.3.2016, was not in name of the company was subsequently sold in FY 2016-17. Hence, no financial risk to the company.
- (i) With respect to reply of query (e) asked at the time hearing, company had submitted list of entities to whom loan was given along with the amount as ledger entry of interest received and also submitted its bank statement with Kotak Mahindra Bank having account number 8511215869. Company had also submitted copy of some loan agreement which are made on plain paper.
- (j) With respect to reply of query (f) asked at the time hearing, company had provided the confirmation of accounts from the counterparties.
- (k) With respect to reply of query (g) asked at the time hearing, company had submitted some

documents, like purchase and sale invoices for revenue/turnover from yarn business. Company had submitted the list of names of entities to whom loans and advances were given. Company had submitted the confirmation of accounts and list of entities to whom and with whom its trade payables and trade receivables is due.

- (l) With respect to reply of query (h) asked at the time hearing, company had submitted the loan sale agreement.
- (m) With respect to reply of query (i) asked at the time hearing, Company had submitted that Total Amount of liabilities as on 31.3.2017 is Rs. 63.63 crores, however total amount of liabilities is Rs. 34.65 crores as on 31.3.2016. Hence the difference i.e. Rs 28.98 crores is the current liabilities.
- (n) With respect to reply of query (j) asked at the time hearing, company had submitted the following:

Figures/amount in Rupees	
In Note. 2.13, Sales Turnover	1,20,98,87,745
In Note. 2.14, Interest income	43,56,398
Total Turnover s per profit and loss a/c	1,21,42,44,143

Hence, Total Turnover figure along with its breakup value is perfectly matched with point No. 20 b (i.e. segment reporting) on page 59 of Annual report (2016-17).

16. SEBI vide communication dated November 08, 2017 has forwarded the copy of MCA letter dated June 09, 2017 to VBIL.
17. Pursuant to SEBI's letter dated August 9, 2017, BSE submitted its report dated October 09, 2017 stating that, Company has submitted the auditor certificate from M/s. Deepak Acharya & Associates, Chartered Accountants. As per the Auditor Certificate, Company had filed annual income tax returns for the last 3 years. Further for AY 2013-14 Income tax department has raised demand of Rs.0.04 crs against which appeal has been filed by the company which remains pending till date, Company had complied with all requirements of Companies Act, Company had filed Annual return for the last three years, Company is a going concern and is engaged in the business of Finance and Investment, Company is not enjoying any working

capital limit with any Bank / Financial Institutions, there is no question in default of payment to Bank / Financial Institution, Company had complied with all the listing regulations for a period of last 3 years except filing of Financial Results under regulation 33 for the quarter ended September 2014, March 2015, September 2015, March 2016, September 2016 and March 2017.

BSE recommended that prima facie company appears to be in order. However, the same has been concluded on the basis of the requirement of filings to be made by the Company. It is also essential to analyse the contents and representations made in the filings to arrive at prima facie findings of any misrepresentation therein.

### **Consideration:**

18. Before moving forward, it is pertinent to deal with the issue raised by VBIL that it had not received the copy of MCA letter dated June 09, 2017. I note that SEBI vide communication dated November 08, 2017 has forwarded the copy of MCA letter dated June 09, 2017 to VBIL. I further note that SEBI while issuing the letter dated August 07, 2017 had relied on MCA letter dated June 09, 2017, however, for issuance of present interim order, SEBI has not relied on MCA letter dated June 09, 2017. The below mentioned findings are made pursuant to independent inquiry done by SEBI under sections 11(B) & 11(4) of SEBI Act.
19. On perusal of the materials available on record, the following prima facie/potential issues arise for consideration.
  - (a) *Whether there is prima facie evidence of misrepresentation including of its financials and/or its business and possible violation of LODR Regulations by the company.*
  - (b) *Whether there is prima facie evidence to show that the company is misusing the books of account/funds including facilitation of accommodation entries to the detriment of minority shareholders and therefore the board, controlling shareholders and KMP are reneging on the fiduciary responsibility cast on them.*

*(c) In view of the determination on the above issues, pursuant to SAT Appeal and the order of SAT in the said appeal, whether, in view of the representation of the Company, the action envisaged in SEBI letter dated August 7, 2017 needs reconsideration.*

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

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

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

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

(a) Vide affidavit dated October 26, 2017, Mr. Vikash Kothari stated that he was appointed as Additional Director of the company w.e.f March 10, 2014 and subsequently appointed as Managing Director for 5 years w.e.f January 01, 2015. He resigned from post of Managing Director w.e.f. from August 21, 2017 because he wanted to promote his family business and full-fledged engaged himself in that business only. He did not hold any shares of the company. In personal capacity, he had no connection with Mr. Jagadish Purohit. He had interacted with Mr. Jagadish Purohit, as Mr. Jagadish Purohit was legal advisor to the company for some matters.

(b) Vide affidavit dated October 26, 2017, Mr. Jagganath Pandit, stated that he had interacted with Mr. Jagadish Purohit in official capacity as Mr. Jagadish Purohit is the legal advisor of the company.

- (c) Vide affidavit dated October 30, 2017, Mr. Shyam Sundar Parasramka stated that he was appointed as Additional Director of the company w.e.f September 21, 2017. He is not associated directly or indirectly with Mr. Vikash Kothari, as Mr. Vikash Kothari resigned from the directorship on August 21, 2017, i.e. before his appointment as director. In day to day business of company he took decisions of his own and in some time he seek advice from his team members.
- (d) For the company, auditor has qualified its opinion stating that Rs. 29 crore worth of inventory is not in company's name. This audit qualification was appearing in the annual reports of past 3 years i.e. 2014-15, 2015-16 and 2016-17. The company stated that as per the annual report 2016-17, the inventories as on March 31, 2017 was Rs. 90.02 lakhs and as on March 31, 2016 was Rs. 29.92 crores. The company also submitted that inventory of Rs 29.92 crores as on March 31, 2016, which was not in name of the company was subsequently sold in Financial Year (FY) 2016-17. Hence, no financial risk to the company. However it is noted that the company admitted to having sold shares worth Rs. 29.9 crores (i.e. 25% of total revenue of the company) which were not in company's name.
- (e) From the annual report of FY 2016-17, it is observed that the company's revenue from sale of yarn was approximately Rs. 81 crores. Company had submitted the purchase and sale invoices (for months April to August 2016) for revenue/turnover from yarn business. However, company did not submit the invoice for month of September 2016. Based on purchase and sales statement of company for FY 2016-17 as submitted by the company, prima facie it appears that company had Rylan Trades Pvt Ltd. as its only vendor and Rotokul Suppliers Pvt. Ltd as its only client. However, on perusal of bank statement of VBIL submitted for period from April 01, 2015 to March 31, 2017 with Kotak Mahindra Bank having account number 8511215869, prima facie it appears that there is no bank statement entry w.r.t. transaction with either Rylan Trades Pvt Ltd. or Rotokul Suppliers Pvt. Ltd.
- (f) Thus, from paras 21(d) & 21(e) above, there appears to be *prima facie* evidence that company had misrepresented its financials.

(g) For FY 2015-16, Company has submitted that as on April 01, 2015, company was holding 6,88,321 shares of PS IT Infrastructure & Services Limited worth of Rs. 37.86 crores and during FY 2015-16 company had sold 1,44,345 shares of PS IT Infrastructure & Services Limited worth of Rs. 7.94 crores. However, as per the information provided by CDSL, as on April 01, 2015, company was not holding any shares of PS IT Infrastructure & Services Limited and during the FY 2015-16 company had bought 2,00,000 shares of PS IT Infrastructure & Services Limited and had not sold any shares of PS IT Infrastructure & Services Limited.

For FY 2016-17, Company has submitted that as on April 01, 2016, company was holding 5,43,976 shares of PS IT Infrastructure & Services Limited worth of Rs. 29.86 crores and during the FY 2016-17 company had sold 5,43,976 shares of PS IT Infrastructure & Services Limited worth of Rs. 29.86 crores. However, as per the information provided by CDSL, as on April 01, 2016 company was holding 2,00,000 shares of PS IT Infrastructure & Services Limited and during the FY 2016-17 company had neither bought nor sold any shares of PS IT Infrastructure & Services Limited. It is also noted that Mr. Johar Pal Singh is independent director of VBIL and whole time director of PS IT Infrastructure & Services Ltd for FY 2015-16 and FY 2016-17. Thus this would be a related party transaction.

For FY 2016-17, Company has submitted that as on April 01, 2016, company was holding nil shares of Denim Developers Limited and during the FY 2016-17 company had bought 1,15,500 shares of Denim Developers Limited worth of Rs 5,77,750/- and sold 1,15,500 shares of Denim Developers Limited worth of Rs 5,77,750/-. However, as per the information provided by CDSL, as on April 01, 2016 company was holding 22,87,900 shares of Denim Developers Limited and during the FY 2016-17 company had bought 44,95,900 shares of Denim Developers Limited and sold 41,89,000 shares of Denim Developers Limited.

Thus, it is observed that company's submission w.r.t. transactions in Denim Developers Ltd and PS IT Infrastructure & Services Ltd. do not reconcile / match with the transaction statement of company received from CDSL. This mismatch would need to be verified against physical shares held/transacted, if any.

(h) Auditor has observed that interest on loan is not computable, During the course of hearing and vide email dated October 27, 2017, VBIL was advised to submit full list of entities to whom the loan has been given along with the amount of the loan and underlying loan documentation (when it was given, due date, interest rate and loan agreement etc.) and also submit bank statements of company for 2 years i.e. FY 2015-16 and 2016-17 in which loan disbursement, return of interest and principal should be marked/highlighted. Company had submitted list of entities to whom loan was given along with the amount as ledger entry of interest received. VBIL also submitted its bank statement with Kotak Mahindra Bank having account number 8511215869. However, company did not submit the underlying loan documentation (i.e. when loan was given, due date, interest rate, etc.) except for few entities. Upon perusal of loan agreement following are observed:

- (i) The copy of loan agreement which are provided in respect of few entities are made on plain paper without a date of stamp purchase/notarization, the date of document creation is not confirmed.
- (ii) From Company's Annual report 2016-17, it is observed that Mr. Sandip Ray is shown as independent director of company. However, on the loan agreements submitted by company to SEBI, Mr. Sandip Ray is representative of the VBIL who signed the loan agreements on company's behalf. This raises a question about the claimed independent status of Mr. Sandip Ray.
- (iii) For all the companies to whom the loan was given by VBIL, the bank statement does not reflect the interest received. Also, for the companies to whom the loan was given before April 2016, i.e. for JSR Industries Pvt. Ltd. & Smart Tie Up Pvt. Ltd., no corresponding bank entry was highlighted by the company for these entities. This raises a suspicion of genuineness of these transactions.
- (iv) In respect of loan agreement with Smart Tie Up Pvt. Ltd., Fine Health Pvt. Ltd. (Joint Venture), GU Merchandise Pvt. Ltd., JSR Industries Pvt. Ltd. and Vasupati Niketan Pvt. Ltd. it is noted that the amount of loan and the interest rate mentioned in the loan agreement and as mentioned in the Annual Report FY 2016-17 (page 59-60) does not reconcile/match and this constitutes serious misrepresentation.

- (v) Similarly, company had submitted the loan agreement with The Right Address Ltd., however the name of The Right Address Ltd does not appear in list of loan given to entity as mentioned at page 59-60 of Annual report 2016-17.
- (vi) In respect of loan agreement with Fine Health Pvt. Ltd., VBIL has mentioned that the agreement shall remain in effect for period of 9 months from the date of agreement. Upon expiration of this period, both the parties will enter into JV Agreement. However, the interest rate for this 9 month period is not mentioned in the agreement.
- (i) During the course of hearing, VBIL was advised to submit the underlying documentation for purchase of debtors of Rs. 45 lakhs for FY 2016-17. Company had submitted the loan sale agreement done on April 17, 2015 by VBIL (buyer of loan account) with Pay Point India Network Pvt. Ltd. (seller of loan account) for purchase of loan of M/s OSS Retails Pvt Ltd. having interest receivable as Rs. 4.48 crores. The principal and interest along with collateral security is receivable by the buyer of loan agreement. However, upon perusal of documents submitted, it is observed that on main agreement there is no signature of buyer or seller. On Annexure B to the agreement, there is only buyer's signature and seller's signature is not there. Also, the month mentioned in page 1 of the agreement is of June 2015 and the date of which is blank. Thus, the credibility of the submitted document is questionable.
- (j) Thus, from paras 21(h) & 21(i) above, it is observed that VBIL had submitted insufficient documents w.r.t. the loans and advances given and submitted non-credible loan sale agreement with Pay Point India Network Pvt. Ltd leading to suspicion of misuse of funds/books of accounts..
- (k) SEBI vide letter dated October 10, 2017, had advised the company to provide whether company and its director/promoter are directly or indirectly connected/associated or dealt with Mr. Jagadish Purohit. Company vide letter dated October 11, 2017, stated that company has no dealing with Mr. Jagadish Purohit directly or indirectly. However, Mr.



Vikash Kothari and Mr. Jagganath Pandit in their affidavit stated that they had interacted with Mr. Jagadish Purohit and that Mr. Jagadish Purohit is the legal advisor of the company.

(l) Auditor had mentioned that in FY 2016-17, confirmation of balances are not available. During the course of hearing, VBIL was advised to submit the documents with respect to the confirmation of balances from counterparties. Company has submitted the documents for confirmation of accounts from the counterparties. Upon perusal of the documents following is observed:

- (i) Confirmation of Accounts with Mr. Jagadish Kumar Purohit and family/associates (linked to each other based on same address in Confirmation of accounts) shows that the total amount given to them appears to be Rs. 5.63 crore.
- (ii) One of the confirmation of account shows Rs 15 lakh given to Mr. Jagdish Purohit having address as 6/1, Bijoy Mukherjee Rd., Bhowahipur, Kolkata – 700025 on March 09, 2017.
- (iii) Another account showed Rs. 2.875 crores as opening balance for Ms. Mamta Purohit on April 01, 2016 having same address as mentioned above. (Rs. 2.875 crores was credited to Mamta Purohit from VBIL on various dates in 2015 (August 6, 2015 to December 19, 2015).
- (iv) Rs 15 lakhs were given to Mr. Sourav Purohit on March 09, 2017 having same address as mentioned above.
- (v) Rs 23 lakhs and 16 lakhs were given to Mr. Sushil Kumar Purohit (Rs 23 lakhs to Mr. Sushil Kumar Purohit is shown as opening balance for April 01, 2016 and Rs 16 lakhs is given on March 09, 2017), again having the same address as mentioned above.
- (vi) Rs 3.4 lakhs shown as opening balance on April 01, 2015 for Mr. Anil Kumar Purohit having same address as mentioned above.
- (vii) Rs 3 lakhs shown as opening balance on April 01, 2015 for Ms. Dolly Purohit having same address as mentioned above.

- (viii) Rs 90 lakhs shown as opening balance on April 01, 2015 and Rs. 45.5 lakhs as credited in April 2015 to Ms. Chandrakala Purohit's account from VBIL account, totaling to Rs. 1.355 crores credited to Ms. Chandrakala Purohit having same address as mentioned above.
- (ix) Credit of Rs. 42.19 lakhs to Krishna Devi Purohit (opening balance on April 01, 2015) having same address as mentioned above.
- (x) Rs 17 lakhs was credited on November 18, 2015 and Rs 6 lakhs was debited on November 17, 2015 to/from Kailash Prasad Purohit having same address as mentioned above.

Few of names stated above are reflected in company's short term loans and advances.

(m) From the bills, details of stock of shares of company submitted by VBIL it is observed VBIL has bought and sold shares of following scrips (except PS IT Infrastructure and Services Ltd.) at same price and quantity.

- (i) VBIL has invested in JMD Sounds Ltd. in which Kailash Prasad Purohit is director, who has same address as that of Mr. Jagadish Prasad Purohit mentioned above. This investment was done in FY 2016-17 and also sold off in FY 2016-17, both for Rs. 3.80 crores. It also purchased and sold shares of JMD Sounds Ltd in FY 2015-16 worth Rs. 28 lakhs. Part of these shares were purchased by VBIL from Blue Circle Services Ltd. which has Anil Kumar Purohit as director (who is also director of Risewell Suppliers Pvt Ltd in which VBIL has invested Rs 1 crore).
- (ii) VBIL has invested in Prince Tradecom Ltd. in FY 2016-17. In this scrip Kailash Prasad Purohit is director who has same address as that of Mr. Jagadish Prasad Purohit mentioned above. This investment was sold off in FY 2016-17 for Rs. 1 lakh.
- (iii) In FY 2015-16 VBIL had invested Rs. 1 crores in shares of Risewell Suppliers Pvt Ltd. which had Jagadish Prasad Purohit and Anil Kumar Purohit as directors.
- (iv) VBIL bought shares of Shree Ganesh Sugar Mills Pvt Ltd. from Prantikole Dealers Pvt. Ltd. From the MCA database, it is observed that Prantikole Dealers Pvt. Ltd

does not exist. Thus, there is a prima facie suspicion that VBIL had made false submission.

(v) In FY 2016-17, VBIL purchase and sold off its investment in Denim Developers Ltd. (in which Mr. Jagadish Prasad Purohit was director in period 2009-13) worth Rs. 5.77 lakh. In FY 2015-16, company sold shares worth Rs. 3.12 crore of Denim Developers Ltd.

(vi) Based on the bill submitted, VBIL sold shares of scrip PS IT Infrastructure & Services Ltd. to Unisys Softwares & Holding Industries Ltd. (a company where Jagadish Purohit is director). Few of the transactions are shown as under:

- 9800 shares worth Rs 551 each for total amount of Rs. 54 lakhs on 5.4.2016
- 2725 shares worth Rs. 551 each for total amount of Rs. 15 lacs on 1.9.2016

(n) Thus, from paras 21(k), 21(l) & 21(m) above, it is observed that company had numerous direct and indirect dealing with Mr. Jagadish Purohit and his associates / associates' company, which is in contradiction to company's submission vide letter dated October 11, 2017 that company has no dealing, directly or indirectly, with Mr. Jagadish Purohit. This constitutes a false submission to SEBI by the company either vide letter dated October 11, 2017 or vide letter dated October 27, 2017

22. From the above I note the followings:

(a) In FY 2016-17 VBIL had sold the shares worth of Rs. 29.9 crores (i.e. 25% of total revenue of the company) which were not in company's name. Company revenue from sale of yarn was approximately Rs. 81 crores and Rylan Trades Pvt Ltd. is the vendor and Rotokul Suppliers Pvt. Ltd is client. However, there is no bank statement entry w.r.t. transaction with either Rylan Trades Pvt Ltd. or Rotokul Suppliers Pvt. Ltd. Thus, there appears to be *prima facie* evidence that the company has misrepresented its financials.

(b) That Company has failed to submit sufficient documents to substantiate its loans and advances given. Thus, there appears to be *prima facie* suspicion of misuse of funds/books of accounts of the company.

(c) Transactions of company with Mr. Jagadish Purohit and his associates / associate company were observed w.r.t. short term loans and advances, selling of and purchase of shares with/of companies in which Mr. Jagadish Purohit / his associates are directors. This is contradictory to the submission of the company to SEBI that the company / promoters / its directors (whether directly or indirectly) had no transaction with Mr. Jagadish Purohit. This constitutes false submission by the company to SEBI.

23. Thus, there is *prima facie* evidence of misrepresentation of business/financials as well as suspicion of misuse of funds/ books of accounts of the company and false submission to SEBI. The directors & KMPs have therefore *prima facie* failed to discharge their fiduciary responsibility. The company is also liable for the *prima facie* violations observed and it is imperative that in the interest of investors, the financials of the company be independently audited to establish their genuineness.

**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.*

24. In view of the *prima facie* evidence on the misrepresentation of business/financials by the company as well as suspicion of misuse of funds/ books of accounts of the company and false submission to SEBI, the persons who are in control of the company and the directors/promoters 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.

25. The findings in this order have been rendered on the basis of the prima facie evidence available at this stage. Detailed examination / forensic audit needs to be undertaken to unearth the entire extent of violations.
26. Further, pending enquiry/ audit, considering the interest of public shareholders involved in VBIL, I find it is appropriate to revert the trading in the securities of VBIL to the status as it stood prior to issuance of letter dated August 7, 2017 by SEBI.
27. In view of the above, I am of the view that following urgent interim actions are required to be taken, pending further enquiry/audit.

### **INTERIM ORDER**

28. In the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 11, 11(4), 11A and 11B read with Section 19 of the Securities and Exchange Board of India Act, 1992, hereby, modify, subject to para 28(iv) of this order, the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by Stock Exchanges, against M/s V B Industries Limited as under:

- i. The trading in securities of VBIL shall be reverted to the status as it stood prior to issuance of letter dated August 7, 2017 by SEBI.
- ii. Exchange shall appoint an independent forensic auditor *interalia* to further verify:
  - a. Misrepresentation including of financials and/or business by VBIL, if any;
  - b. Misuse of the books of accounts / funds including facilitation of accommodation entries, if any.

- iii. The promoters and directors in VBIL are permitted only to buy the securities of VBIL. The shares held by the promoters and directors in VBIL shall not be allowed to be transferred for sale, by depositories.
- iv. The other actions envisaged in SEBI's letter dated August 07, 2017 in para 1 (d), as may be applicable, and the consequential action taken by Stock Exchanges shall continue to have effect against M/s V B Industries Limited.

29. The '*directors*' for the purpose of direction mentioned at para 28(iii) above shall mean and include:

- (a) the persons who are acting as directors on the date of this order, or
- (b) the persons who are 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.

30. Accordingly the representation of M/s V B Industries Limited is disposed of.

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

32. The prima facie observations contained in this Order are made on the basis of the prima facie material available on record. In this context, M/s V B Industries Limited is advised to file its reply/objections to this interim order. The company, within 30 days from the date of receipt of this Order, may file its reply, if any, to this Order and may also indicate in the reply whether it desires to avail an opportunity of personal hearing on a date and time to be fixed on a specific request made in that regard, if any. In the event of M/s V B Industries Limited failing to file reply or requesting for an opportunity of personal hearing within the said 30 days, the preliminary findings of this Order and ad-interim directions at para 28 above shall stand confirmed automatically, without any further orders.

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

34. 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: NOVEMBER 09, 2017**

**PLACE: MUMBAI**

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