

**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 re Securities and Exchange Board of India (Listing Obligations and Disclosure
Requirements) Regulations, 2015***

IN THE MATTER OF

S. NO.	NAME	PAN
1	Venmax Drugs and Pharmaceuticals Limited	<u>AAACY1073C</u>

1. Securities and Exchange Board of India (hereinafter referred to as “SEBI”), in the interest of investors, vide its letter dated August 7, 2017 took pre-emptive interim measures under section 11(1) of Securities and Exchange Board of India Act, 1992 (“SEBI Act”), in respect of certain listed companies identified as “shell companies” by the Ministry of Corporate Affairs including Venmax Drugs and Pharmaceuticals Limited (hereinafter referred to as “VDPL” / “Company”). In view of the said objective, SEBI vide the said letter dated August 7, 2017 also placed the scrip of VDPL in the trade to trade category with limitation on the frequency of trades and imposed a limitation on the buyers by way of 200% deposit on the trade value, so as to alert them while trading in the scrip. The said measures were initiated by SEBI pending final determination after verification of credentials and fundamentals of the company by the exchanges, including by way of audit and forensic audit, if necessary. The measures also envisaged, on the final determination, delisting of the company from the stock exchange, if warranted. By virtue of these measures, trading in the scrip was not suspended, but was allowed under strict monitoring so that investors could take informed investment decisions till SEBI and Stock Exchanges complete detailed examination of such companies.

2. Aggrieved by the aforesaid letter dated August 7, 2017 issued by SEBI, VDPL filed an appeal No. 285 of 2017 before Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT"). Hon'ble SAT vide order dated November 6, 2017 allowed VDPL to withdraw the appeal with liberty to pursue the representation filed before SEBI against the said letter dated August 7, 2017. Hon'ble SAT directed SEBI to dispose of the representation of VDPL as expeditiously as possible and in any event within a period of six weeks from November 6, 2017. Hon'ble SAT also held 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.
3. 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, in the interest of natural justice, an opportunity of personal hearing was granted to VDPL on November 14, 2017. The authorized representative of VDPL had appeared for the said hearing.
4. Thereafter, SEBI vide interim order dated December 18, 2017 (hereinafter referred to as "*interim order*"), had modified, subject to para 25 of the interim order, the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by Stock Exchanges, against VDPL as under:
 - i. *The trading in securities of VDPL 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 verify:*
 - a) *Misrepresentation including of financials and/or business of VDPL, if any;*
 - b) *Misuse of the funds/books of accounts of VDPL, if any.*
 - iii. *The promoters and directors in VDPL are permitted only to buy the securities of VDPL. The shares held by the promoters and directors in VDPL shall not be allowed to be transferred for sale by the depositories.*
 - iv. *The other actions envisaged in SEBI's letter dated August 7, 2017 in para 1 (d), as may be applicable, and the consequential action taken by Stock Exchanges shall continue to have effect against VDPL.*
5. Vide the interim order, SEBI had advised VDPL to file its reply/objections to the said interim order within 30 days from the date of receipt thereof and also indicate in its 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.

6. Vide an email dated December 18, 2017, a copy of interim order was forwarded to VDPL. Subsequently, a physical copy of interim order was also sent to VDPL vide letter dated December 18, 2017 on its address on record, and the same was delivered.

Reply and hearing

7. VDPL submitted its reply/objections to the Interim order vide letter dated January 15, 2018. VDPL filed the following documents along with its submissions:
 - i. Confirmation from Nama Chemicals (“Nama”) that the purchases were made and acceptances to collect the payment from UNI MAX Fabricators and Dealers (“Unimax”).
 - ii. Purchase invoices of Nama Chemicals along with DC acknowledgement.
 - iii. Sales invoices to Unimax along with DC acknowledgement.
 - iv. Copies of the VAT returns of VDPL
 - v. Copy of tripartite agreement between VDPL, Nama and Unimax dated December 29, 2016.
 - vi. Copies of photographs of the industrial sheds owned by Nama chemicals
 - vii. Copy of the photograph of one shed which was let out by Nama Chemicals to VDPL.
 - viii. Copy of the photograph of one shed which was let out by Nama Chemicals to CNS Laboratories Private Limited (“CNS”)
 - ix. Lease rental agreement between Nama and VDPL dated June 04, 2014.
 - x. Copy of sales tax registration of VDPL.
 - xi. Copy of Form DIR-12 from ROC by Syntho Chirals Pvt. Ltd. (“Syntho”)
 - xii. Extract of annual reports for the years 2010-11, 2011-12, 2012-13 and 2013-14
 - xiii. Bank statement from Telangana State Co-op Apex Bank w.r.t. Gold loan of N V Narender
 - xiv. Minutes of audit committee for writing off of debtors namely Rychold Chemicals Pvt. Ltd., Krishi Fabs and Maven Life Sciences.
 - xv. Copy of tripartite agreement between VDPL, Nama and Syntho dated December 29, 2016.
8. An opportunity of hearing was provided to VDPL on March 27, 2018 when its authorized representatives (Advocate Mahesh Ramchandani and Mr. N. V. Narender - Director) appeared and made, *inter alia*, the following submissions:

- The company was founded in the year 1990 and since then, it has followed all ethical practices. There is no case pending against the company as on date.
- Currently, as regards the business of the company, it is submitted that the company has developed certain oncology related products and for their commercialization, the company requires money.
- The company is only hoping to procure the money from investors.
- The financial condition of the company had weakened and it was referred to BIFR. Mr. Narender had pledged his gold and had infused money into the company.
- Salaries of the employees have been paid in cash by Mr. N. V. Narender. No TDS was filed in that regard as the amount was less than Rs. 25,000.
- Regarding the observations in the interim order, the company has made good the errors and has also submitted documentary evidence. The company has provided the settlement agreement, VAT receipts, invoices, etc.

During the hearing, the company was asked to provide bank account statements showing relevant entries for the transactions shown in their books. Regarding the evidence submitted by the company showing fixed deposit with Union Bank, the company was asked to provide acknowledgment from the Bank regarding the said deposit.

9. Thereafter, VDPL submitted its post hearing submissions vide letter dated March 27, 2018. The replies / submissions of VDPL in respect of the observations of the *interim order* are as under:

a) Observation in the order:

“As per Annual Report 2016-17, the total purchases and total sales reported were Rs 24,42,000 and Rs 25,92,000, respectively. In this regard, it is noted that VDPL as well as the BSE report state that VDPL has only one bank account in State Bank of India bearing account number 35644354313 through which all business related activities are carried out. Total credits and total debits in the bank statement for FY 2016-17 are Rs 3,63,000 and Rs 6,73,193 respectively. However, the full value of sales and purchases is not reflected in the bank statement of VDPL thereby showing that the transactions carried out by VDPL were either non-existent or in cash or as claimed by VDPL, were directly settled between NAMA and UNIMAX. This would require further examination including testing the transaction for whether or not there was transfer of aforementioned

funds or not. This would determine whether there is a misrepresentation of financials of VDPL or not.

It is also observed that purchases and sales were made from and to only one party each i.e. NAMA and UNIMAX, respectively. From MCA website, it appears that the registered address of VDPL is Nama Chemical Industries, Shed No.22, Plot No.84, Phase-I, IDA Cherlapally, Hyderabad TG 500051 IN. Hence the registered office address of VDPL is registered in the name of NAMA. Further, two sales invoices of NAMA submitted by VDPL indicate that the same address is shared between NAMA and VDPL.

From the above, I find that during FY 2016-17, VDPL in its books has shown purchases from only one seller i.e. NAMA, who appears to be a connected party of VDPL as it shares the same address as that of VDPL.”

VDPL's Reply

The following is submitted:

- i. Confirmation dated December 28, 2016 from Nama that the purchases were made and acceptances to collect the payment from Unimax
- ii. Purchase invoices of Nama along with DC acknowledgement
- iii. Sales invoices to Unimax along with DC acknowledgment
- iv. Copies of sales tax registration of VDPL from state government and
- v. Copies of VAT returns of VDPL.

Nama is a sole proprietor concern owned by Mr. Nama Purushotam and deals with manufacture of bulk drugs and machineries. He owns 18000 square feet consisting of two manufacturing blocks, one R&D block and two sheds with office rooms. He has let out one shed with office room to VDPL and one R&D block to CNS who has specialized in R&D of bulk drugs and intermediates. VDPL and CNS have entered into lease rental agreement with Nama. All the above three parties have obtained sales tax registration from state government and conducting valid legal business independently. None of them is interested parties as per the definition of Companies Act, 2013. VDPL has stated that due to apprehension of freezer of bank account, the management was compelled to settle the transaction through tripartite agreement.

In light of above, sharing of same building under legal rental agreement does not bar the genuineness of the transaction. Further, VDPL submits that the proprietor of Nama is neither director nor an employee of VDPL and he doesn't hold any stake in the company.

b) Observation in the order:

Thus, the ... transaction of VDPL with Syntho appears to be a related party transaction on account of a common director, but the company has not disclosed the same in Annual report 2015-16 and 2016-17. The Annual report of 2015-16 and 2016-17 for Particulars of Contracts & Arrangements with Related Parties, inter alia stated that "There was no contract or arrangements made with related parties as defined under Section 188 of the Companies Act, 2013 during the year under review." Thus, there is prima facie evidence of misuse of funds/books of accounts of VDPL.

VDPL's Reply

VDPL has submitted that the transaction has been entered with Syntho and wherein Mr. N V Narender is an independent director without any stake. The said transaction was carried out at arm's length and the provision to section 188(1) of Companies Act, 2013 says *"Nothing in this sub section apply to any transaction entered into by the company in its ordinary course of business other than transactions which are not on arm's length basis."* Hence no board member approval are deemed necessary as per the provisions of Companies Act, 2013.

c) Observation in the order:

It is noted that, total deposits for Rs. 6.96 lakhs have been shown in the annual report for FY 2016-17. However, no bank statement/certificate was provided to support the current existence of these deposits.

VDPL's Reply

It is submitted by VDPL that it has kept the deposits of Rs. 6.16 lakhs with the banks towards the bank guarantee for Pollution Control Board.

d) Observation in the order:

It is noted that Mr. Nitesh Vijay Vargiya had ceased to be Director of VDPL from March 31, 2010. As per ledger account provided by VDPL, the loan from Mr. Nitesh Vijay Vargia for amount Rs. 1,33,77,749/- was reclassified from loans from director in FY 2015-16 to loans from others in FY 2016-17. The loan from him has been reclassified as loan from others in FY 2016-17 instead of FY 2010-11 with much delay. VDPL has not provided any explanation for such delay in reclassification of the loan.

VDPL's Reply

VDPL has submitted that the "Loan from Mr. Nithish Vijay Vargia is shown as "Loan from Shareholders/others" from 2011 onwards. VDPL has enclosed concerned extract of annual reports duly printed for the year 2010-11, 2011-12, 2012-13 and 2013-14. It is submitted that loan from Mr. Nitesh Vijay Vargia is in order from 2011 to 2014. Since, there was a typographical error in the published annual accounts of 2014-15 and 2015-16, the same was rectified in 2016-17 by regrouping Mr. Nitesh Vijay Vargia's loan as loan from others. As seen from the above, there is no irregularity in the books of accounts right from the inception i.e. 2010-11 onwards and the typographical error in the published annual accounts in rectified in 2016-17.

e) Observation in the order:

As per VDPL's submission, MD (Mr. Narender) has taken the personal loan by pledging the gold and met company expenditure of Rs. 12,90,251/- in FY 2016-17. It appears from VDPL's submissions that Mr. Narender was making expenditures on behalf of VDPL and the same was accounted as "unsecured loan from directors". VDPL has not provided the necessary documentation in this regard to show that the said expenditure was made on behalf of VDPL, and thus there is a doubt as to whether the liability of "unsecured loans from directors" is genuine. Also, there is no documentation to show the source of expenditure which further raises question of the genuineness of the said liability.

VDPL's Reply

VDPL has submitted that the MD Mr. N V Narender has taken gold loan from Telangana State Cooperative Bank, Ameerpet and Hyderabad. An extract of the account of Mr. N V Narender bank account and confirmation from the concerned branch is submitted as a documentary proof to prove the genuineness of liability, "the Unsecured Loan from Director". The details of expenditure for 2016-17 totaling to Rs.12.9 lakhs for 8 such items was also furnished.

f) Observation in the order:

Trade Payables to Sri Ram Chits has increased from opening balance of Rs.1.26 lakhs to Rs.2.06 lakhs. VDPL has not provided any explanation for increase in Trade payables to Sri Ram Chits especially in light of the fact that the purchase and sale for FY2016-17 was only from / to one entity namely: NAMA and UNI MAX.

VDPL's Reply

VDPL has stated that the transaction with respect to trade payables is for a period of more than 15 years. As per the records available, VDPL has stated that it has vowed Rs. 2.06 lakhs to Shri Ram Chit Pvt. Ltd. On review of the pending cases, it is found that the liability existed in the books of accounts is only Rs. 1.26 lakhs. Further, it has come to notice during the audit that Rs. 0.8 lakhs has been deposited in the court as per directions of the court pending final settlement. By passing the journal voucher, debited the deposited account and credited the Shri Ram Chit Pvt. Ltd.'s account and therefore the liability has been increased aggregating the total liability to Rs. 2.06 lakhs. Since, this is rectification entry, there is no linking of this transaction with bank account. Thus, there is no further inflow of funds.

g) Observation in the order:

In respect of the sales and purchases for the FY 2016-17, VDPL has provided a copy of the settlement agreement dated December 29, 2016 where under the payment which was supposed to be received by VDPL, was agreed to be paid directly by the purchaser to NAMA. It is pertinent to note that the said settlement agreement relates to transactions for FY 2015-16 and not FY 2016-17. Thus, there

is a lack of documentary evidence in respect of realization of consideration by VDPL for its sales shown in the annual report of 2016-17.

VDPL's Reply

VDPL has submitted that the documentary proof of sale and purchase for FY 2016-17, has not been raised in the earlier queries i.e. queries dated November 14, 2017. Now, VDPL has submitted tripartite agreement of settlement for sales and purchases for the year 2016-17 with Nama and Unimax.

h) Observation in the order:

With respect to written off sundry creditors, VDPL in its reply stated that it has written off amount payable to Deepak Paints and Sri Durga Engineers aggregating to Rs 2.41 lakhs and the same was treated as other income in profit and loss account for FY 2016-17. However as per P&L account for FY 2016-17, the total sundry creditors written off was Rs 3.20 lakhs. Hence there appears to be a mismatch in figures as reflected in the Annual Report FY 16-17 and VDPL's submissions.

VDPL's Reply

VDPL has submitted that an explanation was given for reduction in the trade payables. There was no specific query with regard to the total write off of Rs. 3.2 lakhs in the profit and loss account. VDPL has stated that in their earlier query, they have already answered for 2.41 lakhs. The balance Rs. 0.79 lakhs is the excess provision for consultancy from M/s. Jawahar and Associates, Chartered Accountant, Hyderabad which is no longer required. Earlier the same was included in the provision for Audit fee and same has been reversed.

i) Observation in the order:

As per VDPL's submissions, deposits of the company have increased from Rs 6,16,738 to Rs 6,96,738, i.e. an increase of Rs.80,000 from FY15-16 to FY16-17 on account of addition of deposit in the court with regard to case pending against the company. VDPL has submitted copy of petition and Demand Draft (DD) dated October 14, 2009 for deposit of Rs.87,000/- made with the court. Since the DD was not pertaining to FY 2016-17, the company would have accounted for amount

of Rs.87,000/- in the year 2009-10 itself. However, as per the company's submissions, the same has been accounted for in FY 2016-17 for an amount of Rs.80,000/- instead of Rs 87,000/-.

VDPL's Reply

VDPL has submitted that the deposits were increased from Rs. 616738/- to Rs. 696738/- an increase of Rs. 80000/- from FY 2015-16 on account of addition of deposit with regarding to case pending against the company. The original liability (at the time of dispute) of Sriram Chits was only Rs. 2.06 lakhs but the Sriram Chits was claiming around Rs. 3.20 lakhs. And the dispute was pending before the III CCC Civil Court in Hyderabad. During the year 2009-10, the court directed VDPL to deposit 1/4th of decretal amount which comes around Rs. 80000/- plus Rs. 7000/- towards expenses. The company has submitted a DD of Rs. 87000/- in favour of Additional Senior Civil Judge. The copy of DD dated 14/10/2009. In the year 2009-10, our accountant wrongly debited Rs. 80000/- from Sriram Chits and their liability was reduced to Rs. 1.26 lakhs in the ledge accounts of Sriram Chits.

During 2016-17, it was noticed that the DD of Rs. 87000/- (Rs. 80000/- to Sriram Chits and Rs. 7000/- for expenses) which was kept in the court as a deposit and increased the credit to Sriram Chits as Rs. 2.06 lakhs from Rs. 1.26 lakhs. On the asset side of balance sheet Rs. 80000/- was added to deposits which was increased from Rs. 6.16 lakhs to Rs. 6.96 lakhs.

j) Observation in the order:

With respect to supply of goods and services, VDPL in its reply has stated that it had earlier wrongly classified the amount receivable from Rychold Chemicals of Rs 28,90,744 under other non-current assets for supply of Trytyl chloride under advance of supply of goods. The same has been rectified in and written off in FY2016-17. Further, the company had written off an amount of Rs 6,42,537 which was paid to Krish Fabs towards purchases of capital equipment in year 2008. As per company submission the said amount was also written off in year 2016-17 with approval of audit committee. It is noted that VDPL has not provided the audit committee minutes in that regard. Since the write-offs are material, particularly when the company is making losses, the said write-offs need to be examined in detail.

VDPL's Reply

VDPL has submitted Minutes of the Audit committee for write off of Debtors.

k) Observation in the order:

An amount of Rs.50,90,948 is indicated as long term trade receivables in Annual Report FY 2016-17. VDPL has also submitted the details of the said amount to be received from 7 such entities. However, the figures in the table provided by VDPL add up to approx. Rs.55,22,938 instead of Rs.50,90,948.

VDPL's Reply

VDPL has submitted that in response to SEBI's query regarding amount of Rs.50,90,948/- indicated as long term trade receivables in Annual Report FY 2016-17, the figure provided in the table adding up to Rs.55,22,938 is due to typographically error. The figure of Rs. 431992/- against M Y Drugs.

l) Observation in the order:

As per Agreement of Settlement dated December 29, 2016, agreement was entered between VDPL (1st party), NAMA Chemicals Industries (2nd Party) and Syntho Chirals Private Limited (3rd Party) for Rs 46,70,000. It is noted that the said agreement was for transaction done in FY 2015- 2016 and not FY 2016-2017. It is noted that in year 2016-17 the entire sales were made to UNIMAX Fabricators and Dealers but in the Agreement of settlement there was no mention about UNIMAX. Thus, the sales proceeds should have been reflected in the bank statement of VDPL which is not the case.

VDPL's Reply

VDPL has submitted that the agreement between VDPL, Nama and Syntho was in response to SEBI's query regarding explanation sought about how trade payables of Rs. 57.24 lakhs has been reduced to 7.58 lakhs. VDPL has submitted a tripartite agreement in this regard. With regard to the query that sale proceeds should have been reflected in the bank account, VDPL has submitted that the

same has been settled through a tripartite agreement of which a copy has been submitted. The reason for not routing the transaction through bank account has been explained earlier i.e. the threat of freezer of bank account by Income Tax Department/statutory authorities.

Consideration of issues

10. In light of the observations of the interim order and the submissions made by VDPL, the following issue arises for consideration:

Whether in light of the facts and circumstances of the case, the findings of the interim order and the submissions of the company in response thereto, the directions issued against the company vide the interim order need to be confirmed, revoked or modified in any manner?

11. Considering the above mentioned facts and circumstances and the replies of VDPL to the findings of the *interim order*, I observe the following:

A. Regarding purchases and sales made by VDPL and the tripartite agreement dated December 29, 2016 between VDPL, Nama and Unimax

- i. VDPL has submitted the tripartite agreement dated December 29, 2016 between VDPL, Nama and Unimax, which states that Unimax will directly make a payment of INR 24.42 lakhs to Nama instead of VDPL. This will settle the liability between VDPL and Nama which arose due to purchase of equipment by VDPL from Nama.
- ii. The following was observed from the tripartite agreement:
 - a. The tripartite agreement states that credit period of 60 days was given to VDPL by Nama. So, the payment for invoice no. 006 dated June 29, 2016 amounting to INR 16.54 lakhs was due on or before August 28, 2016. Even though no payment was made by VDPL to Nama during the credit period, another sale was made by Nama to VDPL vide invoice no. 013 dated September 29, 2016 amounting to INR 7.88 Lakhs. The same was due for payment on or before November 28, 2016 i.e. 60 days credit period.
 - b. As per invoices no. VDPL/001 dated June 30, 2016 and no. VDPL/002 dated September 30, 2016, the credit period given to Unimax by VDPL was indicated as 60 days. So, the payment for invoice no. VDPL/001 dated June

30, 2016 amounting to INR 17.26 lakhs was due on or before August 29, 2016. Even though no payment was made by Unimax to VDPL, another sale was made by VDPL to Unimax vide invoice no. VDPL/002 dated September 30, 2016 amounting to INR 8.66 Lakhs. The same was due for payment on or before November 29, 2016.

- c. The tripartite agreement states that credit period of 90 days was given by VDPL to Unimax instead of 60 days as mentioned in the invoices no. VDPL/001 dated June 30, 2016 and no. VDPL/002 dated September 30, 2016 raised by VDPL to Unimax.
- d. The agreement states that due to financial crunch, Unimax is unable to make payment to VDPL after due dates. *Despite the financial position of Unimax, Nama agreed to settle the liability of VDPL with Unimax, which is not consistent with accepted business practice. Thus, the same is prima facie suspicious and needs full audit.*
- e. Further, the agreement provides for settlement of INR 24.42 lakhs due to Nama from VDPL. However, the total transaction value between Unimax and VDPL was INR 25.92 Lakhs. *The agreement does not provide for balance INR 1.50 lakhs owed by Unimax to VDPL. No documentary evidence has been provided by VDPL for receipt of the same. Also, no documentary evidence has been provided for transfer of INR 24.42 Lakhs from Unimax to Nama. Further, there is no third party verifiable documentary evidence to show the actual delivery of machinery from Nama to VDPL and then from VDPL to Unimax.*

B. Regarding the transaction of VDPL with Syntho

- i. It is observed that since Mr. N V Narender is an independent director of Syntho and is also MD of VDPL, Syntho is a related party of VDPL in terms of provisions of Section 2(76)(iv) of the Companies Act, 2013 read with Regulation 2(1)(zb) of LODR Regulations, 2015. *VDPL has not provided sufficient material to show that the said transaction of VDPL with Syntho was carried out on an arms' length basis.*
- ii. Further, para 23 of Accounting Standard 18 inter alia requires that - *If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose details such as the name of the transacting related party, a description of the*

relationship between the parties, a description of the nature of transactions, etc. I observe that since the transaction with Syntho was not disclosed by VDPL in the Annual Report for FY 2015-16, such non-disclosure appears to be *prima facie* in non-compliance of the provisions of Regulation 53(f) read with Para A of Schedule V of LODR.

C. VDPL has not provided any documents to support existence of deposits for Rs. 6.96 lakhs (as on March 31, 2017) that have been shown in the annual report for FY 2016-17.

D. Regarding the expenditure incurred by Mr. Narender accounted as “unsecured loan from directors”.

- i) As per VDPL’s submissions, MD (Mr. Narender) had taken the personal loan by pledging gold and met company’s expenditure of Rs 12,90,251 in FY 2016-17. According to VDPL, Mr. Narender was making expenditures on behalf of VDPL and the same was accounted as “unsecured loan from directors”.
- ii) On perusal of the bank statement in the name of Mr. Nuka Venkata Narender for the period March 1, 2016 to March 31, 2017 and documents supporting gold loan as furnished by VDPL, following relevant instances are noted:

Sr. No.	Date of Gold Loan	Gold Loan no.	Amount received	Amount utilized	Remarks
1.	17/05/2016	787/14920	1,50,000/-	Cash withdrawal of 1,49,400/- on 17/05/2016	
2.	04/07/2016	787/15301	1,40,000/-	Cash withdrawal of 1,39,400/- on 04/07/2016	Same appears to be have been settled on 12/08/2016 via payment of 1,41,700/-

3.	20/07/2016	787/15442	1,30,000/-	Cash withdrawal of 1,29,400/- on 20/07/2016	
4.	03/10/2016	787/16139	2,50,000/-	1,48,009.90/- transferred to self-account and 1,00,005.45/- to VDPL on 03/10/2016	
5.	13/10/2016	787/16695	2,00,000/-	25,005.45/- transferred to self-account and 1,35,009.90/- to VDPL on 13/12/2016	

- iii) As observed from above table, the total amount transferred to VDPL using gold loan account during the FY 2016-17 is Rs. 2,35,015/-. *Out of total loan amount of 12,90,251/- stated by VDPL, the documents submitted by VDPL provide details of only Rs. 2,35,015/- and no explanation of remaining amount of 10,55,235/- has been provided by VDPL. Further, VDPL has not provided any documents to show the source of expenditure which further raises question of the genuineness of the said liability.*

E. Regarding the write-off of loans by VDPL

- i. The minutes provided by VDPL states that audit committee discussed and approved writing off of bad debts of Rs. 45.93 Lakhs (Rs. 25.91 Lakhs due from Rychold Chemicals, Rs. 10.6 Lakhs due from Maven Drugs Private Limited and capital advances of Rs. 6.42 Lakhs from Krishi Fabs).
- ii. *It is observed from the minutes provided by VDPL that the meeting of audit committee was held on May 25th but the same does not mention the year in which such meeting was held. Also, the signature of the Chairman of the Committee appearing on the minutes do not carry any date. Thus, the*

documents submitted by VDPL do not justify the stand of VDPL and the transactions need to be further probed.

F. Regarding the tripartite agreement between VDPL, Nama and Syntho

- i. VDPL has submitted the tripartite agreement dated December 29, 2016 between VDPL, Nama and Syntho, which states that Syntho will directly make a payment of INR 46.70 lakhs to Nama instead of VDPL. This will settle the liability between VDPL and Nama which arose due to purchase of equipment by VDPL from Nama.
- ii. It was observed from the tripartite agreement that:
 - a. The agreement states that the credit period given to VDPL by Nama was 60 days. So, the payment for invoice no. 002 dated March 07, 2016 amounting to INR 16.54 lakhs was due on or before May 06, 2016.
 - b. The agreement states that the credit period given to Syntho by VDPL was 90 days. So, the payment for invoice no. VDPL/003 dated March 14, 2016 amounting to INR 48.60 lakhs was due on or before June 12, 2016.
 - c. *Despite the fact that due dates for payment were on or before May 06, 2016 for VDPL and June 12, 2016 for Syntho, the agreement was entered on December 29, 2016.*
 - d. The agreement states that due to financial crunch, Syntho is unable to make payment to VDPL after due date. *Despite the financial position of Syntho, Nama agreed to settle the liability of VDPL with Syntho.*
 - e. The agreement provides for settlement of INR 46.70 lakhs due to Nama from VDPL. However, the total transaction value between Syntho and VDPL was INR 48.60 Lakhs. The agreement does not provide for balance INR 1.90 lakhs owed by Syntho to VDPL. No documentary evidence has been provided by VDPL for receipt of the same. Also, no documentary evidence has been provided for transfer of INR 46.70 Lakhs from Syntho to Nama.
 - f. Further, even though no payment was made by VDPL to Nama during the credit period for the transaction done in March 2016 (1st), Nama executed 2 more sale transactions during 2016-17 with VDPL - amounting to INR 16.54 lakhs for which payment was due on or before August 28, 2016 (2nd) and INR 7.88 Lakhs which for payment was due on or before November 28, 2016 (3rd). *All 3 sales transactions were settled vide tripartite agreements with no documentary proof on exchange of funds. Further, there is no third*

party verifiable documentary evidence to show the actual delivery of machinery from Nama to VDPL and then from VDPL to Syntho.

12. It is noted that subsequent to the interim order, VDPL was given opportunities to submit its explanations in respect of the observations made in the interim order. In respect of several transactions noted above, VDPL has provided insufficient explanation / justification, which is not backed by documentary evidence. In respect of the *prima facie* misrepresentations in the financials of VDPL that have been highlighted in the interim order, VDPL has submitted that they were errors and has claimed that the same have now been rectified. It has offered no explanation as to why so many errors (as claimed) had crept in its financials and whether they were *bona fide* errors. It also failed to give any reason as to why the said errors did not come to its notice till the time SEBI highlighted the same. In view of the above, I find that the facts and circumstances of the case as brought out in the *interim order* have not changed, so as to justify the dis-continuation/ modification/ revocation of the directions passed in the interim order.

ORDER

13. In view of the foregoing, 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 confirm the directions issued against VDPL vide interim order dated December 18, 2017.

14. Copy of this Order shall be forwarded to the recognized stock exchanges for information and necessary action. A copy of this Order shall also be forwarded to the Ministry of Corporate Affairs and Serious Fraud Investigation Office for their information.

Sd/-

DATE: OCTOBER 29th, 2018

MADHABI PURI BUCH

PLACE: MUMBAI

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA