WTM/SM/CFID/CFID2/23245/2022-23

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTIONS 11(1), 11(4), 11B (1) AND 11B (2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND SECTION 12A OF SECURITIES CONTRACTS (REGULATION) ACT, 1956 IN THE MATTER OF RICOH INDIA LIMITED

In respect of:

Noticee No.	Name of the Noticees	PAN
1	Manoj Kumar	AAAPK0467B
2	Tetsuya Takano	ANTPT5139K
3	Arvind Singhal	AOAPS9993J
4	Anil Saini	AOZPS8143K
5	A. T. Rajan	ADIPR6654G
6	Amalendu Mukherjee	AMWPM2947A
7	M/s. Sahni Natarajan & Bahl	AABFS5696R
8	Sudhir Chhabra	NA

(The above-mentioned entities are individually referred to by their corresponding names/numbers and collectively referred to as "*Noticees*")

Background in brief

1. Ricoh India Limited (hereinafter referred to as **'RIL'/'*Company*'**) was a subsidiary company of Ricoh Company Limited, Japan and NRG Group Limited, making it a part of larger Ricoh Group worldwide. The equity shares of the *Company* were listed on the BSE Limited (hereinafter referred to as '**BSE**') and 73.6% of its shares were held by the then promoters of the *Company* at that time. RIL has been operational in India for the last 4 decades and was involved in

trading of multi-functional printers and other hardware (core business) and providing IT related services (ITS business) in the Indian Markets.

2. The *Company* changed its earlier statutory auditors M/s. Sahni Natarajan & Bahl (hereinafter referred to as '***Noticee no. 7***' / '***Auditor***') and appointed BSR & Co., LLP (hereinafter referred to as '**BSR**'), an entity of larger KPMG Group worldwide, as its statutory auditors for the Financial Year 2015-16. While conducting a limited review of the financial statements of the *Company* for the quarter and half-year ended September 30, 2015, BSR observed that there are certain transactions which were shown in the books of accounts without having the backing of proper supporting records, which raised suspicions regarding the *bonafide* about certain transactions between RIL and its customers & vendors. Alarmed by it, BSR recommended further review of these transactions.

3. On the basis of the said recommendation, the Audit Committee of the *Company* got a forensic audit conducted of the books of accounts of RIL for the limited period of April 01, 2015 to September 30, 2015 by Price Waterhouse Coopers Private Limited, India (hereinafter referred to as '**PwC**').

4. During the course of such forensic audit, PwC submitted its preliminary findings to the *Company* on April 20, 2016, pursuant to which, on the same day, the *Company* informed Securities and Exchange Board of India (hereinafter referred to as '**SEBI**') as well as BSE that its financial statements for the quarters ended June 30, 2015 and September 30, 2015 did not reflect true and fair view of its state of affairs. The *Company* also requested SEBI to conduct an investigation *inter alia* into the possible violations of provisions of Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as '**PFUTP Regulations**') pertaining to the said incorrect financial statements.

5. Subsequently, vide another letter dated July 19, 2016, the *Company* disseminated

information to BSE to the effect that its unaudited estimate of the losses incurred for the financial year 2015-16 was INR 1,123 crore. Thereafter, Pursuant to approval of National Company Law Tribunal, on October 15, 2016, the then promoter of the *Company* viz. NRG Group Limited infused INR 1,123 Crores into the *Company* without diluting the shareholding of minority shareholders. The aforementioned recapitalisation was done by cancelling the shares of the *Company* held by NRG Group Limited (a co-promoter) and preferential issue of the same number of shares with the same rights to NRG Group Limited for a consideration of INR 1,123 Crores.

6. At the same time, on the basis of request and disclosures of the *Company*, SEBI conducted a preliminary investigation in the matter to examine the role of entities and key managerial persons of the *Company* (in short '**KMPs**') in the alleged misstatements in the books of accounts of RIL. On the basis of the said preliminary investigation, vide an *ex-parte ad-interim* order dated February 12, 2018 (hereinafter referred to as '***Interim Order***'), Mr. Manoj Kumar (hereinafter referred to as '***Noticee no. 1***'), Mr. Tetsuya Takano (hereinafter referred to as '***Noticee no. 2***'), Mr. Arvind Singhal (hereinafter referred to as '***Noticee no. 3***'), Mr. Anil Saini (hereinafter referred to as '***Noticee no. 4***'), Mr. A. T. Rajan (hereinafter referred to as '***Noticee no. 5***'), Mr. Amalendu Mukherjee (hereinafter referred to as '***Noticee no. 6***') and Mr. Bibek Chowdhury were restrained from accessing the securities market and from buying, selling or otherwise dealing in the securities market in any manner whatsoever, either directly or indirectly. The said directions issued vide the aforementioned *Interim Order* were confirmed vide Confirmatory Order dated August 16, 2018.

7. At the same time, vide the aforesaid *Interim Order*, SEBI was directed to appoint an independent audit firm for conducting a detailed forensic audit of the books of accounts of RIL for the Financial Year 2012-13 onwards till date. Subsequently, vide a corrigendum order dated March 6, 2018, BSE was directed

to appoint an independent auditor/audit firm for conducting a detailed forensic audit of the books of accounts of RIL for the financial year 2012-13 onwards till date.

8. In accordance with the aforesaid *Interim Order*, BSE appointed CJS Nanda & Associates for conducting the forensic audit of the books of accounts of RIL. The forensic audit report, submitted by CJS Nanda & Associates, was not considered by SEBI on the ground of it being insufficient and it was also noticed that the transactions between RIL and its largest vendor and supplier during the relevant point of time, Fourth Dimension Solutions Ltd. (hereinafter referred to as '**FDSL**') were so intertwined that a combined forensic audit of the affairs and accounts of both these entities together, was necessary for a meaningful outcome. Thereafter, SEBI appointed Pipara & Co., LLP (hereinafter referred to as '**Pipara**'/'***Forensic Auditor***') on February 20, 2019 to conduct forensic audit into the books of accounts of RIL as well as FDSL.

9. The forensic audit report from Pipara was received by SEBI on August 9, 2019. Subsequently, certain queries were raised with respect to the observations made in the said report since certain factual mistakes were noted by SEBI in the report and accordingly, the *Forensic Auditor* submitted their revised report on October 25, 2019 after clarifying those observations and after correcting the factual mistakes highlighted by SEBI. The said report dated October 25, 2019 has been referred to as ***Forensic Audit Report*** or **FAR** in the present order.

10. On the basis of findings of facts and observations made in the said FAR and the material and documentations collected during the course of such audit, an investigation was undertaken into the affairs of the *Company* to ascertain as to whether there was any violation of the provisions of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as '**SEBI Act**') and/or PFUTP Regulations during the period between April 01, 2012 to March 31, 2016

(hereinafter referred to as '**Investigation Period**').

11. In the meanwhile, the *Company* filed a petition in January 2018 under The Insolvency and Bankruptcy Code, 2016 which was admitted by Hon'ble National Company Law Tribunal (hereinafter referred to as '**NCLT**') vide an order dated May 14, 2018 and resolution plans were sought from applicants. Vide order dated November 28, 2019, the resolution plan submitted by a consortium of Kalpraj Dharamshi and Rekha Jhunjhunwala was accepted by Hon'ble NCLT. In terms of such resolution plan, the *Company* made a public announcement dated December 03, 2019 providing an exit offer to its public shareholders and, thereafter, it was delisted from BSE w.e.f. December 23, 2019.

12. It is important to mention here that, during the investigation period, the scrip of the *Company* opened at a price of INR 33.30 on April 02, 2012 and reached a high of INR 1072.25 on July 02, 2015 before coming down to INR 422 on March 31, 2016 which was the last trading day prior to the end of the investigation period. I also note that the scrip of the *Company* continued to fall even after Investigation Period and the last trading price in the scrip of RIL was INR 193.45 on December 12, 2016.

13. The investigations into the affairs of RIL and its dealings with FDSL and other entities, *inter alia,* revealed the following:

    13.1. Instances were found where RIL had recorded sales entries in Tally (accounting software) even before the Order Sales Form (hereinafter referred to as '**OSF**') for the corresponding sales order was generated, leading to allegation that the *Company* was recognising sale even before the order was actually received and executed.

    13.2. Instances were also found in the stock summary of FDSL wherein it had shown to have made sales of products to RIL while having negative inventory. Therefore, it is alleged that some of the transactions entered by

FDSL with RIL were fictitious and weren't backed by delivery of products mentioned therein.

13.3. Outstanding debtors' balances of below mentioned entities to the extent of INR 171.59 Crores was written off in the books of accounts of RIL during the Financial Year 2016-17:

Sr. No.	Name of the Entity	Sale Invoice Date	Sales Invoice No.	Sales Amount (Rs.)	Bad Debts Amount (Rs.)
1	Media Junction	03.01.2015	DEL/SER/0838/14-15	5,05,62,000	90,00,000
2	New Code IT Services Pvt. Ltd	03.01.2015	DEL/SER/0839/14-15	14,34,27,540	59,27,540
3	Nike Sales Corporation	30.09.2015	DEL/RI/0672/15-16	10,54,13,700	20,97,785
4	Quantum Ltd	30.11.2015	DEL/TI/0105/15-16	25,02,67,500	16,89,67,500
5	Redhex	Multiple Invoices			72,30,01,165
6	Rudra Enterprises	05.08.2015	DEL/RI/0470/15-16	16,12,18,529	8,32,32,354
7	Synaptic Systems Pvt Ltd	24.12.2015	DEL/SER/0453/15-16	7,44,24,988	7,44,24,988
8	Vedavaag Systems Ltd	18.12.2014	DEL/TI/0045/14-15	46,41,40,968	58,37,80,436
		31.08.2013	DEL/RI/0499/13-14	14,36,47,224	
9	Videocon Industries Ltd	20.01.2016	DEL/TI/0116/15-16	10,50,30,699	6,55,54,707
Total					**171,59,86,475**

Further examination of these entities showed that most of them were directly or indirectly connected with *Noticee no. 6* and the Purchase Orders (in short '**POs**') of these entities were shared with RIL by *Noticee no. 6* instead of these POs being received directly from these entities. In addition to this, various other details of these entities such as their PAN Numbers., Bank Details, Vendor Registration forms, invoices etc. were also shared with the *Company* by *Noticee no. 6* only.

13.4. In view of this, it is alleged that the sales shown to have been made by RIL to these entities were inflated and consequently, the balances of some of these debtors were written off. Therefore, it is alleged that the financial statements published by RIL were knowingly misstated/inflated in violation of sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of

PFUTP Regulations.

13.5. It was also observed during the course of investigation that RIL had initiated Ricoh IT Services Partner Program (hereinafter referred to as '**RITS Partner Program**'), a multi-tiered partner model designed to enrol partners wherein it was offering resources to these partners to grow IT services of the *Company*. It was found out that only 3 partners namely (Redhex IT Solutions Private Limited, Vedavaag Systems Limited & FDSL) were enrolled by the *Company* for the RITS Partner Program, all of which are allegedly connected to one another and also to *Noticee no. 6*.

13.6. It is observed that, under the RITS Partner Program, majority of the orders were placed by RIL to FDSL and supplies were made by FDSL directly to customers of RIL. It is alleged that the supplies made by FDSL to entities which were supposed to be RIL's customers but these entities/customers were:

(a) not found at the addresses mentioned in such invoices, and/or

(b) not found at the addresses found in the databases such as MCA or at addresses found by conducting a search on Google Search Engine,

13.7. Considering that apart from the aforementioned 3 companies, no other entity had been enrolled by RIL in the RITS Partner Program, it has been alleged that the RITS Partner Program was designed with the sole intention of unduly benefitting FDSL and entities connected with *Noticee no. 6*. It has also been alleged that the said RITS Program was directly under control of *Noticee no. 1* and the agreement for the said program with FDSL was reviewed by *Noticee no. 4* and approved by *Noticee no. 1* on behalf of RIL.

13.8. It is observed that RIL had purchased 3,850 Unique Identification kits (in short '**UID kits**') from FDSL during FY 2013-14 for INR 36.37 crore. Out of these, 2700 UID kits were shown to have been purchased on June 13,

2013 and the same were rented out to Vedavaag Systems Limited (hereinafter referred to as '**Vedavaag**') on **June 12, 2013** (emphasis supplied) for INR 27.12 crore i.e. inventories were rented out by RIL to Vedavaag one day prior to its purchase from FDSL.

13.9. Subsequently, RIL sold all the 3,850 units for INR 23.01 crore to two entities namely AS International and Connect Residuary Pvt. Ltd., allegedly connected with FDSL. Thereafter, RIL took back 4,650 kits from Connect Residuary Pvt. Ltd. on lease (including 2,700 kits sold earlier by it to the same entity) for which it paid an amount of INR 65.71 crore over a four-year period.

13.10. In view of the above noted unusual transactions, it is alleged that RIL has consciously incurred a financial loss of INR 55.21 Crore and the corresponding beneficiaries were FDSL and its connected entities. The details of the alleged losses are computed as under: -

Particular	**Amount (INR in Crores)**
Initial Purchase of UID Kits from FDSL (A)	36.37
Lease dues paid to Connect Residuary Pvt. Ltd.(B)	65.71
Security Deposit Paid (C)	3.26
Total payments made by Ricoh (D = A+B+C)	**105.34**
Sale consideration received from AS International and Connect Residuary Pvt. Ltd. (E)	23.01
Realization value from Vedavaag by providing UID Kits on Rent (F)	27.12
Total Cash realization made by Ricoh (G = E+F)	**50.13**
Net financial loss to Ricoh (D-G)	**55.21**

13.11. In connection with the aforementioned transactions relating to taking of UID kits from Connect Residuary Pvt. Ltd on lease, it is noticed from the minutes of meeting dated September 25, 2014 of Board of Directors of RIL that *Noticee no. 2* had informed the Board of Directors about the intention of the *Company* to procure from 'Connect' certain Information Technology (IT) and related Assets through Operating Expenditure (OPEX) Model

instead of Capital Expenditure (CAPEX) Model and took their approval for the same. However, it is observed in the course of investigation that RIL had already entered into Master Rental Agreement (in short '**MRA**') with Connect Residuary Pvt. Ltd. on December 06, 2013 i.e. several months prior to the aforementioned approval taken from the Board of Directors on September 25, 2014. In fact, the first rental schedule with Connect Residuary Pvt. Ltd. was dated January 29, 2014 i.e. almost 8 months prior to Board approval of the said transaction. In spite of this, the said fact was not highlighted before the Board of Directors of RIL to inform the Board that the *Company* had already purchased UID Kits from FDSL at a cost of INR 36.37 crores and that it had intended to do a sale and lease back transaction from Connect Residuary Pvt. Ltd. and the approval being sought from the Board of Directors was actually retrospective in nature.

13.12. In view of the above observations and facts, it is alleged that *Noticee no. 2* had misrepresented to the Board of Directors of RIL that the *Company* intended to enter into a transaction with Connect Residuary Pvt. Ltd. when the transaction with Connect Residuary Pvt. Ltd. had already been executed more than nine months prior to such Board meeting.

13.13. It is further observed that RIL had initiated a Vendor Financing facility for the purpose of procurement of goods and services from its vendors. As per the Board Resolution dated August 13, 2013, any two of the signatories, one from each set of 'A' and 'B' mentioned herein below, were authorized to avail such Vendor Financing facility from HSBC Bank and Bank of America: -

Set A: Mr. Tetsuya Takano or Mr. A. T. Rajan

Set B: Mr. Manoj Kumar, Mr. Arvind Singhal or Mr. Rajesh Kumar Sood

13.14. It is alleged that FDSL was sole beneficiary of such Vendor Financing

Facility wherein RIL made payment to FDSL through Bank of America and HSBC Bank amounting to INR 244 Crores and INR 311 Crores respectively during FY 2014-15 & FY 2015-16 using the said facility. Based on the facts emerged and evidences gathered in support thereof, it is further alleged that *Noticees no. 1, 2, 3* and *5* were in the knowledge of this scheme and had knowingly permitted FDSL to avail undue benefit under the said scheme at the cost of RIL.

13.15. It is also observed during the course of investigation that, on September 09, 2014, INR 10 crores was transferred from RIL to Rudra Enterprises, another entity allegedly managed by *Noticee no. 6*. Out of that, an amount of INR 1 crore was transferred in favour of one entity namely RNM IT Solutions Private Limited (hereinafter referred to as '**RNMIT**'), which was observed to be managed by *Noticee no. 6* & his wife Mrs. Namita Mukherjee along with the wives of *Noticees no. 3* and *4*. A further analysis of bank statement of RNMIT showed that INR 4 Crores were transferred from FDSL to it on April 09, 2015 in another transaction.

13.16. From the above, it is alleged that RNMIT had received diverted funds from RIL as RNMIT was managed and controlled by the *Noticees no 3* and *4* through their wives along with *Noticee no. 6* and his wife.

13.17. It is noted that FDSL had purchased a server from Vayam Technologies Limited under Invoice No. TI-229 dated February 06, 2015 for an amount of INR 1,69,344/- which was sold by it to RIL under Invoice No. TI-88 dated February 27, 2015 for an amount of INR 1,70,12,000/-. In view of this, it is alleged that undue benefits were passed on to FDSL at the expense of RIL by way of inflated sale price.

13.18. It is further noticed that there was no inward stamp on the aforementioned purchase made by FDSL from Vayam Technologies Limited and no proof

of delivery of the aforementioned server to RIL was found and only a photo copy of the said invoice was available in the records of RIL and FDSL.

13.19. In view of the above findings, it is alleged that the financial statements published by RIL were untrue and had all the elements to mislead the decisions of investors to buy or sell in the scrip of RIL, consequently these mis-stated and untrue financial statements amounted to violation of sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

13.20. It is also alleged that the *Noticee no. 1* was in charge of finance/ accounts in his capacity as CFO of RIL in FY 2012-13 & FY 2013-14, as EVP & CEO during FY 2014-15 and as MD & CEO during FY 2015-16 and therefore was responsible for the aforesaid omissions and commissions pertaining the finances of the RIL and the allegedly fraudulent disclosures made by the *Company* during this period.

13.21. It is also unearthed that, before joining RIL in 1995, *Noticee no. 1* had pursued his Chartered Accountancy articleship from M/s. Sahni Natarajan & Bahl (*Noticee no. 7*), which was later on appointed as a statutory auditor of RIL in FY 2001-02 when he was working in Finance Dept. of the *Company*. It is further observed that the *Noticee no. 7* continued auditing the books of RIL as its statutory auditor till FY 2014-15 and apparently they had to be changed only due to notification of Section 139 of the Companies Act, 2013 which mandated for rotation of statutory auditors for listed companies. As a result of this, only in FY 2015-16, when the new statutory auditors BSR got appointed and commenced their statutory audit, the alleged wrongdoings in the books of accounts of the *Company* started to come to light.

13.22. In view of the aforesaid revelation, it is alleged that *Noticee no. 1*, by virtue

of his position as the CFO of RIL during FY 2012-13 & FY 2013-14, EVP & CEO during FY 2014-15 and MD & CEO during FY 2015-16, had active involvement in committing the fraud of misreporting of the financial statements of RIL from FY 2012-13 to FY 2015-16 and had acted in violation of the provisions of regulation 3(b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of SEBI (PFUTP) Regulations, 2003. Further, it is also alleged that, by certifying financial statements which were observed to be untrue, he is alleged to have acted in making wrong disclosure of Financial Statements of the *Company* and by his above acts *inter alia* has indulged in disclosing wrong disclosure in violation of the provisions of clause 49(V) read with clause 41(II)(a) of the Equity Listing Agreement.

13.23. It is observed that *Noticee no. 2* was the MD & CEO of the *Company* from the start of investigation period till March 31, 2015. Based on the outcome of the investigation, it is alleged that the mandate for PwC investigation was deliberately restricted to the half-year starting from April 01, 2015 and ending September 30, 2015 i.e. the period commencing only after the end of the term of *Noticee no. 2* and the period of audit for PwC was intentionally not extended to earlier period when *Noticee no. 2* was the MD of the *Company*, in order to protect him from any possible audit findings against him.

13.24. It is observed that the business transactions with FDSL started during the tenure of *Noticee no. 2* as the MD & CEO of the *Company*. Further, he was at the helm of affairs of the *Company* when allegedly favourable treatments were being afforded to FDSL in terms of vendor financing facility and RITS Partner Program and he being one of the authorized signatories in vendor financing facility, had facilitated vendor credit facility from the banks to FDSL in exclusion to everyone else.

13.25. It is also noticed that *Noticee no. 2* has indulged in misrepresenting the 'Sale and Lease Back Transaction' of UID Kits to the Board of Directors of the *Company* in the meeting dated September 25, 2014 and based on the above, it is alleged that *Noticee no. 2*, by virtue of his position as MD & CEO of RIL during FY 2012-13 to FY 2014-15, has active involvement in committing the fraud of misreporting of the financial statements of RIL during his tenure. The above acts by *Noticee no. 2* were alleged to be in violation of the provisions of regulation 3(b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations. It is also alleged that, by certifying financial statements which were noticed to be untrue, he has violated clause 49(V) read with 41(II)(a) of the Equity Listing Agreement during his tenure as MD and CEO of the *Company*.

13.26. It is noticed that *Noticee no. 3* was appointed as Chief Financial Officer (in short '**CFO**') of the *Company* on April 01, 2014 and as a CFO, he was responsible for the preparation of the afore stated financial statements of the *Company* for FY 2014-15 and FY 2015-16, which were allegedly observed to be false and inflated. It is also observed that *Noticee no. 6* and the wives of *Noticees no. 3* & *6* were directors in RNMIT. It is also alleged that *Noticee no. 3* had received various personal benefits out of his close connection with *Noticee no. 6* viz: fund diversion from RIL to RNMIT via various entities, trips to Dubai and Aurangabad for his family, sponsored by *Noticee no. 6* etc.

13.27. In view of the above, it is alleged that *Noticee no. 3*, by virtue of his position as CFO of RIL for FY 2013-14 & FY 2014-15, had active involvement in committing the fraud of misreporting of the financial statements of RIL during his tenure and by doing so, he has allegedly violated the provisions of regulation 3 (b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations. Further, by certifying untrue financial statements of the

Company, he has also allegedly violated clause 49(V) read with 41(II)(a) of the Equity Listing Agreement.

13.28. It is observed that from April 01, 2014, *Noticee no. 4* was responsible for the IT Services business of the *Company*. He was later appointed as Senior Vice President and Chief Operating Officer from April 01, 2015 and was given responsibility for the Business Management Centre under which the IT Services vertical of the *Company* was clustered. He was also allegedly responsible for the sales and purchases on behalf of the *Company* and, therefore, he is alleged to be a part of the scheme where sales were recorded before generation of Order Sales Forms and before actual sales were executed.

13.29. It is also observed that *Noticee no. 4* was one of the persons who had reviewed and approved the RITS Partner Agreement with FDSL, pursuant to which transactions were entered into between FDSL & RIL and this deal had allegedly played an important role in inflation of the turnover of RIL.

13.30. At the same time, it is observed that *Noticee no. 6* and the wives of *Noticees no. 3, 4* and *6* were directors in RNMIT. It has also been alleged that *Noticee no. 4* had received various personal benefits out of his close nexus with *Noticee no. 6*, such as funds diversion from RIL to RNMIT via various entities, payment of tuition fees for his daughter's education in Singapore by *Noticee no. 6*, trips to Dubai and Aurangabad for him and his family, sponsored by *Noticee no. 6* etc.

13.31. In view of the above, it is alleged that *Noticee no. 4*, by virtue of his position as IT Services business head for FY 2013-14 & FY 2014-15 and as Senior Vice President & Chief Operating Officer of RIL for FY 2015-16, had active involvement in inflating the revenue and profits of the *Company* and also in committing the fraud of misreporting of the financial statements of

RIL during his tenure, thereby violating the provisions of regulation 3(b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations.

13.32. It is observed that *Noticee no. 5* became the Chairman of the Finance Committee of the *Company* in FY 2014-15 after taking charge of the said committee from *Noticee no. 1*. It is alleged that no irregularities in financial statements were reported by him despite being aware of abnormal developments in the *Company* like huge abnormal growth in IT Services business, preferential treatment of FDSL, etc. It is further observed that the cost of finance as well as the shortage of cash flows, despite projecting healthy numbers on paper, was under the supervision of *Noticee no. 5*, and it is alleged that he has failed to observe that the *Company*'s funds were being used to pass on undue benefits to FDSL.

13.33. It is also noticed that *Noticee no. 5* was one of the authorized signatories to avail credit facility from the banks as resolved vide Board of Directors meeting dated August 13, 2013, which paved the way for preferential treatment to FDSL through vendor financing. The sanction letter from Bank of America & HSBC for vendor financing of FDSL were allegedly co-signed by *Noticee no. 5* on behalf of RIL. It is also noticed that all the documents for vendor financing to FDSL submitted to the banks on behalf of RIL from time to time were signed by *Noticee no. 5*.

13.34. In view of all the above observations, it is alleged that *Noticee no. 5*, by virtue of his position as Chairman of finance committee of RIL for FY 2014-15, had failed to perform his duty in reporting the fraud of misreporting of the financial statements of RIL during his tenure and, as one of the signatories for vendor financing, rather helped in providing undue preferential treatment to FDSL. Based on the above, it is alleged that *Noticee no. 5* has violated the provisions of Regulation 3(b), (c), (d), 4(1) and 4(2)(e), (f), (k)

and (r) of PFUTP Regulations.

13.35. It is observed that *Noticee no. 7* was appointed as a statutory auditor of RIL during the time when *Noticee no. 1* was working in the Finance Department of the *Company* and it remained the statutory auditors of RIL till FY 2014-15. The statutory auditors were changed due to notification of Section 139 of the Companies Act, 2013, which prescribed mandatory rotation of statutory auditors for listed companies. Only in FY 2015-16, when the new statutory auditor BSR were appointed and commenced their statutory audit, did the afore discussed fraud came to light. In the light of this, it is alleged that *Noticee no. 7* was in knowledge of the fraud happening in the financial transactions and in the manipulation of books of accounts of the *Company* and yet, they did not perform their duties as statutory auditors diligently and honestly because of which, as soon as BSR was appointed as statutory auditors, it raised issues in its very first limited audit, which led to unearthing of the fraud with respect to inflation of books of accounts of the *Company*.

13.36. In view of the aforesaid, it is alleged that, *Noticee no. 7* and its partner *Noticee no. 8*, who had signed on the statutory audit reports of the *Company* during FY 2012-13 to 2014-15 on behalf of *Noticee no. 7*, by issuing an unqualified opinion on the inflated financial results, have deceived the investors who relied upon the statutory auditors' report to make investment decisions, and by doing so, they have violated the provisions of Regulation 3 (b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations by aiding and abetting the management of RIL in falsification/misstatement of financial statements of RIL.

13.37. In the end, it is alleged that *Noticee no. 6* was the main facilitator of the fraud as various discrepancies were observed in the transactions done by FDSL

with vendors and customers of RIL wherein many of the vendors and customers were found to be connected to him and communication of these entities with RIL was managed by him.

13.38. In this regard, it is alleged that a group of entities with which RIL had numerous transactions amounting to a large proportion of its total revenue, were related to and under the same management as that of FDSL as the POs as well as many other details such as PAN Number, Bank Details, Vendor Registration forms, invoices etc. of these entities were shared with RIL through *Noticee no. 6*.

13.39. It is also found during the course of investigation that BSR, an entity of larger KPMG group, was appointed statutory auditor of RIL during FY 2015-16 and during their audit, BSR raised suspicions to the Board of the *Company* in October-November 2015, regarding certain transactions between RIL and its customers & vendors. Subsequently, *Noticee no. 6* sent an email on January 14, 2016 to RIL referring therein to certain worldwide cases wherein KPMG was found guilty of being a party to manipulation of accounts of various companies. In view of this, it is alleged that the intent of *Noticee no. 6* was to induce RIL to remove BSR (KPMG) as their statutory auditors when it was in the midst of unravelling the fraud allegedly perpetrated by the *Noticees* with respect to the books of accounts of RIL.

13.40. It is further alleged that, using the RITS Partner Program and the transactions with RIL, FDSL inflated its turnover in the financial years preceding its listing on NSE Emerge platform in January 2016. It is further alleged that the 3 companies, which were enrolled in the RITS Partner program were connected to *Noticee no. 6* and, in view of this, it is further alleged that RITS Partner Program was designed by RIL with the sole intention of unduly benefitting FDSL and entities connected with *Noticee*

no. 6.

13.41. It is further noticed that RIL incurred a financial loss of INR 55.21 crore on the transactions involving UID kits, which were sold to RIL by FDSL, thereby benefitting FDSL at the cost of RIL. It is also alleged that FDSL had availed undue benefit from RIL in the form of short term working capital through vendor financing facility arranged by RIL in favour of FDSL.

13.42. In view of all the above, it is alleged that *Noticee no. 6*, as the MD of FDSL, had availed undue benefits for FDSL from RIL. In the course of such acts, he had also extended personal benefits to *Noticees no. 3* & *4*. In continuation of the acts perpetrated under the said scheme, it is alleged that he had connived with the employees of RIL and had active involvement in facilitating the fraud of misreporting the financial statements of RIL, thereby violating the provisions of regulation 3(b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations.

14. Based on various findings of the investigation, as narrated above, a common Show Cause Notice ('**SCN**') dated March 19, 2020 was issued to the *Noticees* alleging that:

(1) *Noticees no. 1, 2* and *3*, by publication of untrue and misleading financial statements of RIL for FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 and by certification of such untrue financial statements of RIL in their capacity as MD/CEO/CFO etc. of the *Company*, have violated the provisions of Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations as well as Clause 49(V) & clause 41(II) of the Equity Listing Agreement read with Section 21 of Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as '**SCRA**').

(2) *Noticees no. 4* & *5*, by playing their respective role in falsification of books of accounts, have caused publication of untrue and misleading financial statements of the *Company* for FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16 and have thereby violated the provisions of Sections 12A(a), (b) and (c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

(3) *Noticee no. 6*, by connivance with the above employees of RIL in falsification of books of accounts of the *Company*, has caused publication of untrue and misleading financial statements of RIL for FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16, thereby, violating the provisions of Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

(4) *Noticees no. 7* & *8*, by their failure to report the above stated fraudulent scheme and by continuously issuing unqualified audit opinion on inflated financial statements of the *Company* as its statutory auditor, have aided and abetted in falsification/misstatement of financial statements of RIL and therefore, have violated the provisions of Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with Regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

15. In view of the aforesaid allegations that have been brought out in detail in the SCN, the *Noticees* were called upon to show cause as to why suitable directions should not be issued against them and appropriate penalty be not imposed upon them under the provisions of Sections 11(1), 11(4), 11B(1), 11B(2), 11(4A) read with Sections 15HA of the SEBI Act for the alleged violations of the abovementioned provisions of law. Further, *Noticees no. 1*, *2* and *3* were also called upon to show cause as to why appropriate penalties should not be imposed upon them under the provisions of Section 12A(2) read with Section 23H of SCRA.

16. The SCN was served upon all the *Noticees* except for *Noticees no. 2* & *5*, by way of a digitally signed email. The above SCN was also sent to the email IDs of *Noticees no. 2* & *5* as available in records of SEBI. Once *Noticees no. 2* & *5* intimated that the SCN hasn't been served upon them, the same was sent to the email ID of their Authorized Representatives (in short '**ARs**') vide email dated August 04, 2020, delivery of which has been confirmed by return email dated August 06, 2020 of such ARs. Subsequently, Annexures to SCN (i.e. *Forensic Audit Report* and Annexures thereto) were sent in CD to ARs of *Noticees no. 2* and *5* and the receipt of the same was confirmed by ARs vide email dated September 03, 2020.

17. Subsequently, *Noticees no. 2* & *5* requested for copies of Investigation Report which was denied pointing out to them that all the documents relied upon in the SCN have been furnished alongwith the SCN, hence *Noticees no. 2* & *5* were directed to submit their replies to the SCN. However, *Noticees no. 2* & *5* refused to submit their replies to the SCN and filed separate writ petitions before the Hon'ble Bombay High Court, which came to be dismissed. Upon dismissal of the said writ petition by the Hon'ble Bombay High Court, the *Noticees no. 2* and *5* approached the Hon'ble Supreme Court of India through a Special Leave Petition (in short '**SLP**'). Vide an order dated November 19, 2020, the Hon'ble Supreme Court of India directed *Noticees no. 2* & *5* to file their reply to the SCN, and accordingly *Noticees no. 2* & *5* filed their written replies to the SCN vide two separate letters dated November 27, 2020.

18. Similarly, all other *Noticees* submitted their respective replies to the SCN and sought opportunity of personal hearing in the matter. The personal hearing of the *Noticees* was scheduled on December 10, 2020 during which *Noticees no. 7* & *8* appeared through a common AR and *Noticees no. 2* & *5* appeared through another common AR. In the said hearing, the AR of *Noticees no. 2* & *5* sought adjournment of the hearing on the ground that a SLP filed by them is pending before the Hon'ble Supreme Court of India praying for a copy of investigation report.

Further, the AR of *Noticees no. 7* & *8* also requested for an opportunity of cross-examination of the authors of *Forensic Audit Report* dated October 25, 2019.

19. Considering the issues involved in the matter *inter alia,* keeping the interest of principles of Natural Justice in view, an opportunity of cross examination of Mr. Naman Pipara and Mr. Akshay Jain, the authors of *Forensic Audit Report* dated October 25, 2019, was provided to all the *Noticees* including *Noticees no. 7* & *8* on February 25, 2021, irrespective of a Noticee had requested for cross-examination or not, in the interest of administrative convenience and saving of time so that repeated cross-examination of the authors of the authors of *Forensic Audit Report* by different *Noticees* at different points of time can be avoided. I note that the aforesaid cross-examination was attended by all the *Noticees*. However, at the beginning of the proceedings, the ARs of *Noticees no. 2* & *5* raised objections to the continuation of cross-examination proceedings and requested that the cross-examination proceedings be put in abeyance on the ground that their SLP pertaining to their prayer for Investigation Report was pending before the Hon'ble Supreme Court of India. It was informed to them at that stage that in the absence of any order of the Hon'ble Supreme Court placing stay on present proceedings, it may not be appropriate to adjourn the same hence they were advised to avail of the opportunity of cross examination being afforded to them in the light of the fact that all the materials relevant for cross-examination viz: the *Forensic Audit Report* and all its annexures had already been provided to them based on which they can proceed with their cross examination of the authors of the *Forensic Audit Report* who have dutifully made themselves available for the purpose as per my instruction. However, the ARs of the *Noticees no. 2* & *5* continued to resist the continuance of the proceedings and refused to avail such opportunity being provided to them. Immediately thereafter the ARs of the *Noticees no. 2* & *5* left the proceedings without availing the opportunity provided to them for cross examination. Rest of all *Noticees* availed of the said opportunity and extensively

cross-examined both the authors of the *Forensic Audit Report*. It therefore becomes clear to me that the ARs of the *Noticees no. 2* & *5* attended the proceedings only to stall the cross examination proceedings even by other *Noticees* and had no intention to cross examine the authors of the *Forensic Audit Report* nor had they requested for the same, though I had extended the opportunity to them and other *Noticees* for their own benefit which they chose not to avail.

20. Subsequently, opportunity of personal hearing was provided to all the *Noticees* on August 03 & 05, 2021. However, the AR of *Noticees no. 6* as well as the AR of *Noticees no. 7* & *8* sought adjournment on ground of personal difficulties, which was duly granted in the interest of justice. However, on the aforesaid scheduled date, *Noticees no. 1*, *3* and *4* appeared in person and reiterated the submissions already made by them vide their respective letters. At the same time, the ARs of *Noticees no. 2* & *5*, requested for adjournment of hearing by taking a ground that they have preferred an appeal before Hon'ble Securities Appellate Tribunal (hereinafter referred to as '**SAT'**) against hearing notice dated July 09, 2021 sent to them. However, the ARs were informed in clear terms that this was the last opportunity of personal hearing being granted to *Noticees no. 2* & *5* and having attended the hearing they should go ahead and present their case on merit. They were pointed out to the incessant dilatory tactics and non-cooperative approach being followed by them by attending and yet not presenting their case and constantly refusing to participate in any of the proceedings including cross-examination proceedings (which was scheduled only in the interest of the *Noticees*) emanating out of the SCN dated March 19, 2020 issued to them. The ARs of *Noticees no. 2* & *5* were therefore directed to avail the opportunity of personal hearing and complete their arguments and oral presentations on merit, which would be in any case subject to the decision of the Hon'ble SAT, if any. At this stage, the ARs of *Noticees no. 2* & *5* requested for cross-examination of the Authors of *Forensic Audit Report* which they did not do on the appointed day, i.e.

February 25, 2021. They were informed that on the appointed day, when all the other *Noticees* availed of the opportunity and completed their cross examination, they (the ARs of *Noticees no. 2* & *5*) had refused to cross examine the authors of *Forensic Audit Report* and had left the proceedings at their will thereby had *ipso facto* waived their right of cross examination of the authors of *Forensic Audit Report*, when the same was granted to them. Such a request cannot be entertained at this stage as per their whims when the matter has been posted for final arguments. At this stage, the ARs of *Noticees no. 2* & *5* informed that they have decided not to make any oral presentations or argue their case on merits. The ARs of *Noticees no. 2* & *5* sought permission to file a written reply limited to only technical issues, which was duly granted.

21. Subsequently, personal hearing in respect of *Noticee no. 6* as well as *Noticees no. 7* & *8* was scheduled on September 29, 2021 during which the AR of *Noticees no. 7* & *8* again requested for a short adjournment of hearing on the ground of hospitalization of his father. Accordingly, the personal hearing of *Noticees no. 7* & *8* was postponed to October 06, 2021. *Noticee no. 6* appeared through his AR for personal hearing on September 29, 2021 and reiterated his submissions made vide his various letters which are summarized in this order. Similarly, the AR of *Noticees no. 7* & *8* appeared on October 06, 2021 and reiterated the submission already made by them vide separate letters dated August 10, 2020. The AR of *Noticees no. 7* & *8* also intimated about filing of an application dated September 28, 2021 for Settlement of the present proceedings on behalf of *Noticee no. 8* under Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018.

22. In the meanwhile, the appeal filed by *Noticees no. 2* & *5* against hearing notice dated July 09, 2021 was dismissed by the Hon'ble SAT vide order dated August 30, 2021. Bereft of any relief from the Hon'ble SAT, *Noticees no. 2* & *5* once again sought for a complete hearing. Despite their previous defiant approach and the display of constant non-cooperation on their part, one final opportunity of

personal hearing was provided to *Noticees no. 2* & *5* keeping the interest of fairness and natural justice in mind. On October 06, 2021, the ARs of *Noticees no. 2* & *5* appeared for personal hearing and during the oral presentation broadly reiterated the submissions made vide their earlier respective written submissions.

23. Thereafter, the application filed by *Noticee no. 8* for settlement of present proceedings against him was rejected by SEBI on January 14, 2022. In the meanwhile, the SLP filed by *Noticee no. 2* before the Hon'ble Supreme Court of India came to be disposed of vide Judgment dated February 18, 2022 wherein the Hon'ble Supreme Court of India directed SEBI to provide a copy of Investigation Report in the present matter to *Noticee no. 2* and also directed to provide him one month's time from the date of providing him with the said Investigation Report to make his submission in this case.

24. Accordingly, the Investigation Report along with its annexures was provided to all the *Noticees* including *Noticees no. 2* & *5* vide email dated March 09, 2022. Subsequently, vide email dated April 16, 2022 *Noticee no. 2* and *5* submitted additional written responses in continuation with their earlier submissions dated November 27, 2020. Accordingly, the final hearing in the matter was fixed on June 09, 2022 during which the AR of *Noticee no. 2* & *5* reiterated their arguments and explanations already made in the aforementioned submissions dated April 16, 2022.

25. Before moving further, I would like to discuss the constant dilatory tactics employed by *Noticees no. 2* & *5* to stall and disrupt the conclusion of the present proceedings. First, *Noticees no. 2* & *5* approached the Hon'ble SAT against the Confirmatory Order passed against them on August 16, 2018 *inter alia* on the ground of delay in conclusion of investigation into the matter. After about one and half years, vide order dated January 29, 2020, the Hon'ble SAT set aside the directions issued against *Noticees no. 2* & *5* in the *Interim Order*. Once the directions

were lifted, it was the duty of the *Noticees no. 2* & *5* to extend all the cooperation for expeditious conclusion of present proceedings. However, as the facts in the following paragraphs will suggest, instead of extending cooperation, these two *Noticees* indulged in all possible delaying tactics to stall the proceedings at every stage of SEBI's attempt to expedite it.

26. First of all, *Noticees no. 2* & *5* refused to file a reply to the SCN on the ground of pendency of writ proceedings before the Hon'ble Bombay High Court, even though no stay of any nature on the present proceedings was in operation and then upon the rejection of the aforementioned writ petition by the Hon'ble Bombay High Court, they continued with their non-cooperation with the present proceedings by not even filing a reply to the SCN on the ground of preferring an appeal before the Hon'ble Supreme Court of India. It was only after the Hon'ble Supreme Court of India directed them to file their reply to the SCN that *Noticees no. 2* & *5* filed their respective replies. After that, *Noticees no. 2* & *5* refused to participate in the cross examination granted to all the *Noticees* on February 25, 2021 on the ground of pendency of SLP before the Hon'ble Supreme Court of India, even after it was clearly intimated to them that all the relevant material regarding cross-examination had already been provided to them and they have every material ready with them to cross examine the authors of the *Forensic Audit Report* if they wished to avail the opportunity to cross examine. Despite that, *Noticees no. 2* & *5* not only refused to avail of the said opportunity but also wanted the cross examination by other *Noticees* also to be kept on hold which was not acceded to.

27. Subsequently, when the hearing notice dated July 09, 2021 was issued to them fixing the date of personal hearing on August 05, 2021, *Noticees no. 2* & *5* again approached Hon'ble SAT arguing that the issuance of hearing notice was against the rules. I note that this appeal was filed by *Noticees no. 2* & *5* on August 02, 2021, i.e. just three days prior to date of personal hearing and taking this appeal as a

ground, they sought adjournment of personal hearing knowing very well that there was no stay on the proceedings from either Hon'ble SAT or any other court of law. Therefore, the said request for adjournment of personal hearing of the *Noticees no. 2* and *5* was rejected and they were directed to appear for the scheduled personal hearing and complete their oral presentation before me. Interestingly, on the scheduled day of personal hearing the ARs of these two *Noticees* appeared but again repeated the same old request for adjournment taking the same ground however, the *Noticees no. 2* & *5* were advised to submit their arguments by availing the opportunity of personal hearing and complete their oral presentation and were also intimated that in any case the outcome of this personal hearing shall be bound to the order that may be passed in the aforementioned appeal pending before the Hon'ble SAT. They were also clearly informed that this was the final opportunity of personal hearing as one earlier opportunity provided to them in December 2020 was adjourned on their request only. However, *Noticees no. 2* & *5* once again refused to participate in the proceedings and sought time to make written submission only on some technical grounds which was duly granted.

28. The aforementioned appeal filed by *Noticees no. 2* & *5* against hearing notice dated July 09, 2021 was dismissed by the Hon'ble SAT vide order dated August 30, 2021. Upon such rejection of the appeal, *Noticees no. 2* & *5* again approached the undersigned to provide them with one more opportunity of personal hearing. To fulfil the ends of justice, one more opportunity of personal hearing was provided to *Noticees no. 2* & *5* on October 06, 2021 and this time only they appeared through a common AR and made their oral submissions therein reiterating the submissions already made by them vide their respective letters dated November 27, 2020.

29. Subsequently, as mentioned above, vide Judgment dated February 18, 2022, the Hon'ble Supreme Court of India directed SEBI to provide the *Noticees no. 2* & *5* with a copy of Investigation Report. Accordingly, *Noticees no. 2* & *5* were provided

with copy of relevant parts of Investigation Report vide email dated March 09, 2022. At the same time, in compliance with the ratio laid down by the Hon'ble Supreme Court in the above-mentioned judgment, copy of relevant parts of investigation report was also provided to all the other *Noticees* granting them opportunity to make additional submissions, if any.

30. After that, vide their email dated March 25, 2022, *Noticees no. 2* & *5* again sought certain documents such as report of M/s CJS Nanda & Associates, copy of minutes of all Board meetings of RIL etc. These documents sought by them were found to be irrelevant for the purpose of present proceedings as those documents were not relied upon in the SCN hence, the said request was rejected. However, in all fairness, transcript of cross-examination conducted by rest of the *Noticees* was provided to them for their reference and necessary use. At the same time, *Noticees no. 2* & *5* were intimated about the next hearing scheduled on June 09, 2022. I find that the *Noticees no. 2* and *5* have made certain additional submissions on April 16, 2022, which are found to be based on technical grounds and no additional material submissions have been added by them to their earlier submissions filed on November 27, 2020, in compliance with order of Hon'ble Supreme Court in November 2020. This clearly shows that the delay in conclusion of present proceedings, if any, occurred due to *Noticees no. 2* and *5* who continuously ran to different forums which in the context of all the facts mentioned above, which appear to be with *malafide* motive only to delay the conclusion of present proceedings and these *Noticees* had nothing additional to submit on what they had already submitted prior to the order passed by the Supreme Court. All this shows that once the direction issued against them vide *Interim Order* dated February 18, 2018 and confirmed vide *Confirmatory Order* dated August 16, 2018 were set aside by Hon'ble SAT in January 2020, they have employed all possible tactics to delay conclusion of the present proceedings.

Replies of the Noticees:

31. *Noticee no. 7 and 8*, by way of separate letters dated August 10, 2020 and April 22, 2022 made their respective submissions, which are common in content and nature. The submissions so advanced are captured in brief hereunder:

31.1. To start with, *Noticees no. 7* & *8* have raised a preliminary objection on *Forensic Audit Report* (FAR) stating that the FAR has mentioned that it is not an expert opinion and it is only judgmental in nature based on review of records and sample verification of documents/transactions. FAR is based on limited information available with the *Forensic Auditor* and is full of disclaimers. Therefore, any observation in the SCN, based on the FAR, is unsubstantiated and baseless.

31.2. *Noticees no. 7* & *8* have further contended that the statutory audits were conducted by them in compliance with law and the accounting and auditing standards and as per approved audit plan. There was nothing which could have aroused their suspicion. In fact, *Noticee no. 3*, in his submissions made at the time of passing of Confirmatory Order dated August 16, 2018, has stated that no misstatements were brought to his notice by the internal audit team of the *Company*. If internal audit team had not shown any misstatement, it reduced the chance for external auditors to have any suspicion over the *Company*.

31.3. Assuming but not admitting, that if there were any purported discrepancy in the financials of the *Company*, the same could not have been detected by them while carrying out the statutory audit of the *Company*.

31.4. While referring to observations made by the Hon'ble Calcutta High Court in the case of *Deputy Secretary to the Government of India, Ministry of Finance versus S N Das Gupta (AIR 1956 Cal 414), Noticees no. 7* & *8* contended that the duty of an auditor is to employ reasonable care and he is not required to begin

with suspicion or to proceed in the manner of trying to detect a fraud, unless some information has reached which creates suspicion in his mind. In this context, while performing the audit of RIL, there was no occasion for them to have any suspicion of any kind of financial wrongdoings. They cannot be held liable for failure to track out ingenious and carefully laid schemes of fraud, when there was nothing to cause and create reason for having suspicion.

31.5. Contesting the allegations of collusion with other *Noticees* to defraud the shareholders of the *Company* as baseless and without merit, *Noticees no. 7* & *8* have submitted that for collusion, an agreement between the parties is *sine qua non* for which there is no evidence on record.

31.6. *Noticees no. 7* & *8* have stated that the sales process was initially done manually due to which there was no effective tab of the leads generated in a month, total leads converted into confirmed order, total leads not converted in to sales orders and reasons for the same. To overcome such shortcomings, MeraCRM was put in place to monitor the lead management and to automate the entire sales order process so as to save time. However, this was started on a test basis in 2014-15 and it was initially used mostly for MIS purposes to capture the information and the *Company* continued with the manual method while entries in MeraCRM were being made in parallel.

31.7. In view of the above, it is possible that some entries might have been entered at a little later date in MeraCRM while actual sales invoicing was being done manually by Finance Department on receipt of purchase invoice and duly approved Order Sales Form. All such sales and purchases were being done with approval of the authorized persons as per the SOP of the *Company*. The delayed entries in MeraCRM are procedural/clerical errors and nowhere proves that the *Company* was involved in fraudulent activities or *Noticees no. 7*

& *8* have not taken due care while performing their duties.

31.8. As regards the allegations regarding writing off outstanding balances of suspected entities, *Noticees no. 7* & *8* have contended that the same were written off in FY 2016-17 when they were not the auditors of the *Company*. The amount was considered as fully recoverable as on March 31, 2015 by the Board of Directors of the *Company*. Further, out of the total due amount from the suspected customers, certain payments were received which shows that the invoices were not false and fictitious.

31.9. *Noticees no. 7* & *8* have further contended that preparation of books of account was the primary responsibility of the Management of the *Company*. The Financials so prepared by them were duly approved by the Audit Committee as well as Board of Directors of the *Company*. Results so submitted were in line with the business as discussed in "Management Discussion and Analysis" in the Annual Report.

31.10. With respect to some of the parties not found at their addresses, *Noticees no. 7* & *8* submitted that the invoices pertain to 2015 and the investigation was conducted in the year 2019. The parties might have closed their businesses or might have shifted their offices.

31.11. *Noticees no. 7* & *8* have also referred to the complaint filed by RIL with the Economic Offences Wing of Delhi Police (hereinafter referred to as '**EOW**') on the same charges which was rejected by EOW with finding that the allegation of non-existent customers/vendors could not be substantiated and all the alleged suspect transactions were supported by the transfer of funds.

31.12. With respect to the allegation regarding connection of suspected entities with *Noticee no. 6*, *Noticees no. 7* & *8* have stated that the same was not within the ambit and scope of the audit as their role was limited to the extent of accounting standards and auditing standards and there is no requirement for

an auditor to lift the corporate veil and look at the management of the entities.

31.13. Regarding POs of suspected companies coming from *Noticee no. 6*, *Noticees no. 7* & *8* have contended that as the payments were received by the *Company* against the said invoices, no suspicion was raised about such receipt of invoices from *Noticee no. 6*.

31.14. With regards to the allegations of wrongdoing in RITS Partner Program and in sale and purchase of UID kits, *Noticees no. 7* & *8* have submitted that decisions regarding both these matters were commercial decisions of the management of the *Company* and Statutory Auditors did not have any role to play in the same.

31.15. With respect to the allegations of wrongdoing in entering into lease agreement with Connect Residuary Pvt. Ltd., *Noticees no. 7* & *8* have stated that the delay in passing the resolution and entering into the lease agreement was a procedural part for which the management of the *Company* is responsible. Since, the board resolution for entering into the said transaction was made available to *Noticees no. 7* & *8*, there was no occasion for any suspicion.

31.16. With reference to the allegation of preferential treatment to FDSL in Vendor Financing Scheme, *Noticees no. 7* & *8* have contended that the scheme was open to the vendors and they have no reason to suspect on the ground that no other vendor chose to avail the aforesaid facility.

31.17. With respect to the allegation of diversion of funds to RNMIT, *Noticees no. 7* & *8* have stated that the *Company* had made payments to its suppliers and vendors against the respective invoices issued by them. Further payment by the vendor and supplier was not within the scope/mandate of their Statutory Audit.

31.18. With respect to allegation of irregularity in transactions related to Server, the *Noticees no. 7* & *8* have firstly argued that they had no access to the books of accounts of FDSL to verify, if it had purchased the said server from Vayam Technologies Limited for INR 1,69,344/- and secondly, the said server was purchased by *Company* for an amount of INR 1,70,12,000/ - from FDSL and sold by the *Company* for an amount of INR 1,82,97,500/- to third party, thus making a profit on the said deal, which left no scope for suspicion for them.

31.19. With respect to the alleged connection with *Noticee no. 1*, *Noticees no. 7* & *8* have stated that the appointment of Statutory Auditor does not depend on a single person and the same was done after following the process given in Companies Act, 1956, as was applicable at that point of time.

31.20. Further as per Section 139 of the Companies Act 2013, *Noticees no. 7* & *8* could have continued as statutory auditor till FY 2016-17, yet they resigned from auditorship of the *Company* in the end of Financial Year 2014-15.

31.21. In the end, vide an email dated April 22, 2022, they have contended that in the light of belated supply of investigation report, the present proceeding stands vitiated on the basis that material were not shared with them at the relevant point of time which caused prejudice to them in defending the allegations.

32. *Noticee no. 1*, by way of letters dated June 10, 2020, November 09, 2020 and July 15, 2021 made his submissions which are briefly discussed as follows:

32.1. *Noticee no. 1* has contended that he had no motive to commit the alleged fraud as he had neither gained monetarily or otherwise. *Noticee no. 1* has also denied knowing *Noticee no. 6* or any of his associate companies in any capacity other than having a purely professional connection with occasional customary greetings with *Noticee no. 6* in the corridors of the office.

32.2. He has further contended that in none of the regular audits, any significant

lapses were found either in the functioning of the *Company* or in the maintenance of its books of accounts. As per the *Company* structure, he did not have unbridled powers to pull any kind of fraud either in his individual capacity or in collusion with any other group of individuals.

32.3. *Noticee no. 1* has further stated that cases of write off were decided after he left the *Company* and the same was as per the parameters of ageing and recoverability and were recommended jointly by Finance and Operations Departments of the *Company* and were approved by its Audit Committee. However, in case of Redhex IT Solutions Pvt. Ltd. (hereinafter referred to as '**Redhex**'), *Noticee no. 1* has stated that the *Company* had done business worth around INR 206 Crores against which around INR 134 Crores had been collected till March 29, 2016. Additionally, the *Company* had taken Security Deposit for the full payment through post-dated cheques from at least three customers namely Vedavaag, Synaptic Systems Ltd. and Redhex.

32.4. *Noticee no. 1* has contended that the trend of sales going up at the end of the month is a common industry practice as the sales targets are set monthly. If the intent was to artificially inflate IT sales at the month end, the business unit would have taken care to cover its tracks by phasing the inflation evenly throughout the month rather than making this alleged inflation so obvious by confining it just to the month end thereby making its detection so easy.

32.5. *Noticee no. 1* has also contended that even though the Sales Business Units (including IT) of RITS Partner Program were reporting to him, he was not involved in the day to day functioning of the Business Units and used to get involved if there was a significant query or dispute that needed to be addressed. His role was confined to providing strategic direction to the Business Units.

32.6. With respect to allegations of irregularity in purchase and sale of UID kits,

Noticee no. 1 has submitted that, to the best of his knowledge, the *Company* had entered into a Sale and Leaseback arrangement for these kits which was normal in most businesses. Further, this arrangement was renewed by the *Company* after he had left the *Company*.

32.7. *Noticee no. 1* has denied that FDSL claimed undue benefit from RIL. He has stated that the *Company* had two sets of Bank Signatories, one each from Finance and Operations Departments to maintain proper checks and balances in carrying out the banking transactions. Although *Noticee no. 1* was the authorized signatory in the Finance set, he did not ordinarily sign any cheques.

32.8. Regarding his connection with *Noticee no. 7*, *Noticee no. 1* has denied having any contact with anybody (including the partners) in that firm from the time he left the firm till the firm was appointed as the Statutory Auditors in 1999. As RIL was looking for a Statutory Auditor in 1999 and *Noticee no. 7* was a reputed Indian Audit firm, he suggested its name to the *Company*. There was no circumvention of any process in appointment of *Noticee no. 7* as statutory auditor. Also he was not holding sufficient authority in the *Company* to influence the decision of such appointment.

33. *Noticees no. 2 & 5*, by way of separate but similar letters dated November 27, 2020, July 14, 2021, September 20, 2021, October 25, 2021 and April 16, 2022 have made their respective submissions as follows:

33.1. *Noticees no. 2* & *5* have contended that in terms of Regulation 10 of the PFUTP Regulations, SCN could only be issued after consideration of the Investigation Report prepared in terms of Regulation 9. However, in support of its denial to provide Investigation Report to *Noticees no. 2* & *5*, SEBI has consistently contended before the Bombay High Court and Supreme Court that no reliance has been placed on the contents of the

Investigation Report at the time of issuing the SCN (this misleading submission has been dealt with in later part of this Order). Therefore, the present SCN, issued without considering the Investigation Report, and in the absence of satisfaction thereon, is without jurisdiction.

33.2. *Noticees no. 2* & *5* have contended that, vide emails dated July 09, 2021, they were informed for the first time that in accordance with Rule 4(3) of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as '**SEBI Adjudication Rules**'), the Board was of the opinion that an inquiry ought to be initiated against them. Hence, in accordance with the SEBI Adjudication Rules, *Noticees no. 2* & *5* sought cross examination of two witnesses which was not granted.

33.3. *Noticees no. 2* & *5* have further contended that, according to Rule 4(4) of SEBI Adjudication Rules, the hearing dated August 05, 2021 was to be fixed for the purposes of explaining the alleged offences. Thereafter, under Rules 4(5) and 4(6) of SEBI Adjudication Rules, *Noticees no. 2* & *5* were required to be provided an opportunity to lead evidence, by producing witnesses and/or placing documents. However, at the time of hearing, request of *Noticees no. 2* & *5* of cross-examination of witnesses was rejected and they were directed to proceed with final arguments.

33.4. *Noticees no. 2* & *5* have submitted that they have not been provided with the entire record available with SEBI. In this regard, a copy of the forensic audit report of M/s CJS Nanda & Associates was denied to them on the ground that no reliance has been placed on the same in the present proceedings. However, the said forensic audit report of M/s CJS Nanda & Associates, even though not relied upon by SEBI in its SCN, may contain material which might reveal the correct facts and may even exculpate *Noticees no. 2*

& *5* from allegations made in the present proceedings.

33.5. *Noticees no. 2* & *5* have contended that SEBI has failed to conduct any independent investigation and the Investigation Report is verbatim copy of the findings of *Forensic Audit Report*. Therefore, in the absence of any independent investigation under Regulation 9 & 10 of PFUTP Regulations, no proceedings could have been initiated against *Noticees no. 2* & *5*.

33.6. *Noticees no. 2* & *5* have submitted that the investigation suffers from grave defects as neither their statements were taken nor any document or response was sought from them during the whole investigation.

33.7. *Noticees no. 2* & *5* have further contended that none of their bank transactions or any other financial and other records have been examined, which would clearly demonstrate that they had not participated in or benefitted from any of the fraudulent activities in the *Company*.

33.8. *Noticee no. 2* has contended that he has been arraigned in the SCN merely because he held a certain role or position in the *Company*, despite the fact that there is no direct evidence linking him directly to the commission of any fraud. Further, allegation of him restricting the mandate of the PwC Report to only six months is baseless and unsubstantiated and it does not find any mention in the *Forensic Audit Report*.

33.9. *Noticees no. 2* & *5* have pointed out that *Forensic Audit Report* has failed to record that the *Interim Order* and the *Confirmatory Order* were also passed against *Noticees No. 2* and *5* which were in force when the Forensic Audit Report was claimed to have been submitted to SEBI on October 25, 2019. As the names of *Noticees no. 2* & *5* are absent from the list of persons against whom SEBI had passed the *Confirmatory Order*, it means that *Forensic Audit Report* was amended after order dated January 29, 2020 was passed by the Hon'ble SAT setting aside the directions issued against them in the earlier

SEBI orders.

33.10. *Noticee no. 2* has argued that the email dated July 09, 2012, wherein he had allegedly set out his vision for tripling the *Company*'s revenue in 3 years' timeframe, does not at all use the term "revenue" or refer to the type and manner of growth that was being referred to. At the same time, the said email refers to the 17th Mid Term Plan which was prepared for the conservation and protection of the environment. In fact, vide email dated October 13, 2020 the *Forensic Auditor* has confirmed that it was not in possession of the entire 17th Mid Term Plan and has only access to the limited document which refers to the environmental plans of the *Company*.

33.11. With respect to the allegation of extending preferential treatment to FDSL, *Noticee no. 2* has submitted that, he has not signed a single document with respect to extending any facility to FDSL. Further, he was not the MD & CEO of the *Company* when most of the said transactions had occurred.

33.12. It is submitted that the allegations of collusion and fraud require a common intent and execution and there is no evidence of any such common intention or execution. However, the SCN only relies upon conjecture and surmises to conclude that *Noticee no. 2* is also guilty of committing fraud.

33.13. *Noticee no. 2* has submitted that while the allegations against him have been labelled on the basis of he being the MD & CEO of the *Company*, however, he had ceased to be MD & CEO of the *Company* from April 01, 2015 and the instances of fraud only magnified in amplitude after his departure from the *Company*.

33.14. Further, the alleged transactions with FDSL commenced in 2015 when *Noticee no. 1* had become the MD & CEO of the *Company*. FDSL was made a Titanium Partner of the *Company* vide agreement dated February 03, 2015, i.e. at the cusp of the exit of *Noticee no. 2* from the *Company* to his role as

Asia Pacific Head of Ricoh Company Limited.

33.15. In view of the fact above, *Noticee no. 2* has asserted that no vendor financing was extended to FDSL during his tenure and it started to take place at the occasion of the transition of *Noticee no. 1*'s role into the MD & CEO and none of the documents submitted by the *Company* to HSBC and Bank of America were executed by *Noticee no. 2*.

33.16. Alternatively, assuming though not admitting that FDSL was extended "vendor financing" facilities and "preferential treatment", *Noticee no. 2* has also submitted that the said act by itself cannot be said to constitute fraud. The SCN has manifestly failed to elucidate the manner in which opening a letter of credit in favour of FDSL (a) adversely impacted the *Company* in any manner, (b) contributed in affecting the scrip of the *Company* or (c) in itself was a fraudulent transaction.

33.17. *Noticee no. 2* has denied purposely misrepresenting any facts to the Board of Directors of RIL. In this regard, *Noticee no. 2* has attempted to transfer complete blame on to the shoulder of *Noticee no. 4* by stating that the entire transaction with Connect Residuary Pvt. Ltd. was conceptualized and the terms of the agreement were arrived at and agreed upon by *Noticee no. 4*. At the same time, there were two agreements viz. MRA dated December 06, 2013 and addendum to MRA dated September 25, 2014, which were entered into by the *Company* with Connect Residuary Pvt. Ltd. In the absence of any Board Resolution or data to confirm that the Board of Directors was not aware of MRA dated December 06, 2013, the allegation that *Noticee no. 2* did not inform the Board of Directors of the said Agreement is presumptuous.

33.18. *Noticee no. 2* has stated that he had requested for the copies of all board resolutions passed by the *Company*, which was rejected by SEBI. He has also

submitted that agenda of the Board Meeting held on September 25, 2014 was neither provided to him nor reviewed by SEBI.

33.19. Without admitting that the Board of Directors were not informed of the factum of MRA dated December 06, 2013, *Noticee no. 2* has alternatively argued that the allegation is based on the presumption that he was himself aware that the MRA had already been entered into by the *Company* prior to September, 2014.

33.20. With respect to the allegation of being actively involved in committing the fraud and having violated Clause 49(V) read with Clause 41(II)(a) of the Listing Agreement for the FY 2012-13 to FY 2014-15, *Noticee no. 2* has submitted that there is no proof, basis, document or evidence to suggest that he was actively involved in committing the fraud or even had the knowledge of the financial misreporting or fraud.

33.21. *Noticee no. 2* has brought attention towards the fact that neither the Audit Committee, nor statutory auditor nor even the financial department raised any suspicion or red flag with respect to the financial reporting of the *Company*. In these circumstances, *Noticee no. 2* himself could not have been expected to and ought not to be expected to fulfil the roles and responsibilities of all the aforesaid persons.

34. *Noticee no. 3*, by way of letters dated August 13, 2020, August 29, 2020, July 23, 2021, July 31, 2021, August 03, 2021 and April 20, 2022, has made his submissions as follows:

34.1. *Noticee no. 3* requested for a copy of forensic audit report submitted by M/s C J S Nanda & Associates which was not given to him. *Noticee no. 3* has also submitted that the *Company* failed to respond to his request for information/data relating to the period under review so as to enable him to submit an effective reply to SEBI.

34.2. *Noticee no. 3* has pointed out that the *Interim Order* directed forensic audit of transaction till date of *Interim Order*. However, the Forensic Audit Report doesn't cover all instances or transactions post March, 2016.

34.3. *Noticee no. 3* stated that he was the CFO only from April 01, 2014 till March 29, 2016. Thereafter, Mr. A.T. Rajan was the MD & CEO and Mr. Bibek Chowdhury was the CFO of the *Company*.

34.4. *Noticee no. 3* has stated that 3 separate FIRs had been filed by the Anti-Corruption Bureau with Bharuch Police Station, Gujarat on March 29, 2021 in which Mr. Naman Pipara, the Lead Auditor in the present matter has been named as one of the prime accused and a Look-out Red Corner Notice was issued against him as he is absconding and has not returned to India since then for fear of arrest. Further Two CAs of Pipara, Mr. Mitesh Trivedi and Mr. Bhaumik Gandhi were also arrested on January 20, 2021 in respect to the said FIRs.

34.5. Mr. Naman Pipara had openly lied about such arrest of Mr. Mitesh Trivedi and Mr. Bhowmik Gandhi during cross-examination even after being under Oath. Further, Anti-Corruption Bureau officials of Gujarat Police had raided the Ahmedabad office of Pipara on March 25, 2021.

34.6. At the same time, the Advocate appearing before the Hon'ble Gujarat High Court for his anticipatory bail has admitted that the two CAs were behind bars since January 20, 2021 and a total of 43 FIRs have been filed against their firm for Fraud, Criminal Conspiracy, Criminal Breach of Trust, Forgery, Falsification of Accounts, etc. This information simply and surely concludes the fact regarding the large scale corrupt practices being followed by the aforesaid *Forensic Auditor*. In view of this, *Noticee no. 3* has requested to take serious note of the above facts and set aside the FAR as submitted by the *Forensic Auditors* in the matter of RIL.

34.7. *Noticee no. 3* has drawn attention to the fact that one of the auditors, Mr. Akshay Jain was not a qualified forensic auditor as on date of audit. Despite that, he was leading a specialised forensic audit team. Mr. Akshay Jain has further stated to have obtained all the information from one Mr. Amit Padhi. However, there was no authority delegated/provided to Mr. Amit Padhi by the Board of Directors of the *Company* to submit information to the forensic audit team.

34.8. *Noticee no. 3* has also contended that the Forensic Audit was an incomplete exercise based on selected information provided to the audit team and the same has been acknowledged by the Forensic Audit team in Limitations to the FAR section. Further the FAR relies upon limited, incomplete and biased information provided by the Auditee itself, have insufficient analytical review, based on no inspection or inquiry and no major efforts to get independent confirmations, which is in blatant violation of the Auditing Standards, as issued by Institute of Chartered Accountants of India (hereinafter referred to as '**ICAI**').

34.9. Alleging fraud on the part of Resolution Professional of the *Company*, as appointed by the Hon'ble NCLT, *Noticee no. 3* submitted that the Resolution Plan approved by the Hon'ble NCLT in November, 2019 had been set aside by the Hon'ble NCLAT vide order dated 5th August, 2020, due to illegalities and irregularities carried on by the Resolution Professional. As the Forensic Audit report was also prepared under the said Resolution Professional, it becomes unreliable.

34.10. *Noticee no. 3* has submitted that he was never responsible for the purchase, inventory, warehouse and vendor management of the *Company* and the same was the responsibility of the Supply Chain Management (SCM) department under Mr. A.T. Rajan (*Noticee no. 5*).

34.11. He has further contended that even after March 29, 2016, the new management had issued a Purchase Order worth nearly INR 1000 crores to FDSL and had advanced money to the tune of INR 250 crores till the end of FY 2016-17 and the same has been recorded by the Hon'ble WTM in clause 's' on Page 40 of the *Confirmatory Order*.

34.12. *Noticee no. 3* has also submitted that, in compliance with Section 139 of the Companies Act, 2013 the existing auditors could have continued till September, 2016 i.e. for a period of three years from the commencement of the Act. However, as a pro-active step, he recommended for appointment of new Statutory auditors in April 2015 itself.

34.13. Regarding discrepancies in records of Tally and MeraCRM, *Noticee no. 3* has preferred to rest his submissions on the arguments made by *Noticee no. 7* & *8*, which have been reproduced earlier in this order.

34.14. *Noticee no. 3* has also stated that the FAR has not reported the sales order to sales invoicing process, according to which all processed sales orders used to come to Supply Chain Management (in short '**SCM**') on basis of which they used to identify and select the vendor. Thereafter, SCM used to issue the POs to the vendors for delivery of material. Subsequent to this, SCM used to provide the Sales Order along with the PO and the Original Invoice copy of the vendor for material received, for sales invoicing to the customer. Accordingly, all the sales invoices were raised only when the Sales Order, PO and vendor's original Invoice copies were provided and received from SCM.

34.15. *Noticee no. 3* has further submitted that the trade receivables were written off as bad debt in FY 2016- 17, when he was not associated with the *Company*.

34.16. *Noticee no. 3* has pointed out that the *Company* had filed criminal cases under

Section 138 of the Negotiable Instruments Act, 1881 for cheque bouncing against 3 of its customers. However, except for filing the aforesaid criminal complaint against 3 customers, no efforts were made to recover the said amounts and the new management simply wrote off those amount as bad debts.

34.17. *Noticee no. 3* has also stated that the said security cheques, which bounced and led to filing of abovementioned criminal complaints, were available with the *Company* only because, as the CFO, he had ensured that the *Company* had security instruments/cheques for recovery of its receivables from all its customers.

34.18. Regarding the allegation of non-existent customers, *Noticee no. 3* has stated that the *Forensic Audit Report*, despite acknowledging the fact that the addresses of certain suspected entities mentioned on the MCA website were different from the addresses mentioned in the Tally and other system of RIL, sent the confirmation letters on the old addresses. Further, on one hand, the *Forensic Auditor* has mentioned that some customers had received the courier and confirmed by mail of receipt of their letters, however, on other hand, their teams did not find the same parties at the same addresses in field visit. Also no field visits were made to some entities, still they were declared non-existent.

34.19. Arguing that the suspected entities might have changed their addresses, *Noticee no. 3* has submitted that Google Search Engine is not a conclusive method of tracing any entity or a company. Also the MCA site will show the address which was last updated by the company. If any company is non-compliant in updating its records then the same doesn't mean that the entity is non-existent, at most it is non-compliant of the law.

34.20. *Noticee no. 3* has also referred to the possibility of entities using

addresses/warehouses for local billing in different states for VAT purposes in 2014-15. However, after GST, all entities started centralized warehouse/billing address as may be convenient to them. So many entities might have closed certain warehouses, maintained earlier. Therefore, it might be possible that the correspondence sent to these entities would have returned undelivered from these closed offices/warehouses.

34.21. *Noticee no. 3* also highlighted the fact that the *Company* had filed a criminal complaint in EOW which was closed by EOW, New Delhi finding no substantial evidence in favour of the allegations. As per him, the EOW report included the same specific customers which are included in the FAR, stating that they had found addresses of all the customers/vendors. The above report of the EOW was disclosed to BSE by RIL on April 12, 2017.

34.22. With respect to the allegations regarding wrongdoing in transactions related to UID kits, *Noticee no. 3* denied being involved in sales/renting/purchase of UID kits as it was not under his purview. The leasing of UID kits was carried out, based on the decision of the Board of Directors in which *Noticee no. 2* had informed them regarding the benefits of leasing (opex model) as compared to Capital (capex model).

34.23. Regarding signing of MRA with Connect Residuary Pvt. Ltd., *Noticee no. 3* has stated that it was negotiated and signed by Mr. Manish Sehgal. For the sake of information, he had suggested some changes and mailed it to *Noticee no. 3*. However, *Noticee no. 3* had no role in the said agreement. He was not the CFO or KMP during the period when it was signed and had no authority to approve and sign any agreement during that period.

34.24. *Noticee no. 3* has further argued that the sale of UID kits were not loss making transactions, as all kits were sold at or above the Written Down

Value of these Kits. Besides this, the *Company* also generated a working capital cash inflows of INR 28.40 crores, thereby saving interest cost.

34.25. Further, he has also contended that all the tables showing UID Kits business transactions are without considering the revenue and inflows generated by the *Company* during the period of April, 2014 to March 29, 2016 from deployment of these kits despite the fact that FDSL had confirmed deployment of UID kits in the various parts of India under various projects. If all such inflows would have been considered the table would have shown actual net inflows on account of the UID kits deployment business. In specific, he has stated that the following transactions were not included in the calculations of losses in UID kits related transactions:

- Depreciation on INR 36.37 crores of Fixed Asset capitalised
- Amount paid by *Company* for extended period of lease after March 2016 till January 2018 – INR 29.57 crores.
- Revenue generated from various projects of UID Kits – INR 7.50 crores (As mentioned in Annexure 51 on Page 1217 of the Annexures to the FAR).

34.26. At the same time, all the working capital limits and related products were duly discussed and approved by the Board of Directors of the *Company*, before they were implemented. Further all payments were made as per the payment terms decided and approved by the Supply Chain Management team under *Noticee no. 5*, leaving no reason to doubt such payments. In such circumstances, *Noticee no. 3* had no authority to over step the decisions and approvals taken by the Board of Directors or Audit Committee.

34.27. With respect to the allegation of preferential treatment to FDSL through Vendor Financing, *Noticee no. 3* has denied approving any payment under the scheme. He has also stated that the Board of Directors had approved the Vendor Financing scheme even before he became CFO of the *Company*.

34.28. Further it was the SCM department which used to negotiate the terms of payment and credit period with the vendors and release the PO on them based on which the payments were made to the respective vendors. There has not been reported a single transaction/ case or payment where any vendor of the *Company* was paid, in violation of the PO terms or before the due date or without an approval from respective authority.

34.29. This product financing structure or vendor financing was made available to the SCM to negotiate better deals from the vendors, who were willing to provide extended and increased credit terms to the *Company*. Under the scheme, only such a vendor could be offered this product financing structure that was able to provide extended and increased credit period for payment. Under a normal credit period, the company would have to pay its vendor after 30/60 days, however under the vendor financing scheme, the proposed vendor would have extended the credit facility for a period ranging from 270 to 365 days, which was way beyond the normal credit period. This way the *Company* used to make the payment to the vendor only after the expiry of the extended credit period and in the meantime the *Company* was able to utilise the same funds for its other working capital requirements. In all such cases the original vendor would be paid off after the end of credit period and by that time the *Company* would have already received its dues from the customer. Therefore, in overall scenario, the *Company* funds were never utilised to fund those transactions as it was funded by the vendor for the *Company*.

34.30. With respect to the allegation of diversion of funds of RIL to RNMIT, *Noticee no. 3* has stated that his wife was only a director in RNMIT, but neither him nor his wife, derived any direct or indirect benefit from the said company. Further, his wife had not authorised, approved or signed any transaction and/or any receipt or payment of any funds to/from RNMIT at any given point of time.

34.31. *Noticee no. 3* has also denied having any connection with Rudra Enterprises or any other suspected entities at any given point of time. Further, RIL did not have any business transactions with RNMIT and so no profit/loss has accrued to RIL by his wife being a part of RNMIT.

34.32. With respect to the findings in *Forensic Audit Report* regarding receipt of INR 1 Lac by his wife from RNMIT, *Noticee no. 3* has explained that his wife had paid an amount of INR 1 Lac to RNMIT vide cheque no. 132763, credited on 6th February, 2014 in Bank Account of RNMIT, for opening a new bank account in the name of the said company. The same amount was returned back to her same account on 19th March, 2014, when it was felt that she would not to be part of RNMIT any further.

34.33. With respect to his trip to Dubai with *Noticee no. 6*, *Noticee no. 3* has stated that it was a normal practice in the IT and Office Automation industry to offer trips to major customers/dealers by companies. Even RIL had provided such trips to its dealers/partners since last more than 15 years on a yearly basis. *Noticee no. 3* also informed that he had been offered such trips by some banks as well. RIL had itself provided an overseas trip to FDSL, its employees and family members.

34.34. Similarly, with respect to the trip to Aurangabad, *Noticee no. 3* has stated that it was only a pilgrimage trip to the holy shrine of Shirdi for a day by the families. This was only a thanksgiving trip. This has not caused any

loss to the *Company* in any form and no additional benefit accrued to him due to such trip.

34.35. *Noticee no. 3* has stated that all the financial results and statements were published only after taking due approval and authorisation of the internal audit team, statutory auditor and approval of the Audit Committee and the Board of Directors of the *Company*. Further, he was not the CFO of the company during the preparation and finalization of financial statements of the *Company* for the FY 2015-16, as he was sent on leave from March 30, 2016.

34.36. The sequence of events, which had transpired, based on filings made with SEBI/BSE by the *Company* are as under:

Date	*Particulars of Events*
20/04/2016	Audit Committee (AC) of RIL filed complaint with SEBI for mismanagement, on basis of preliminary report of PwC, forensic auditors appointed by Shardul Amarchand Mangaldas (SAM). **PwC was given the mandate to carry out forensic audit only for 6 month period from 1st April, 2015 till 30th September 2015 and not of any period prior to that date.**
19/07/2016	RIL informs Ricoh Japan regarding an **estimated** loss of INR 1123 crores for FY 2015-16.
19/07/2016	Ricoh Japan, files a petition for funds infusion of INR 1123 crores before Hon'ble NCLT, Mumbai for re-capitalization of RIL.
29/07/2016	Mr. Yuki Uchida, Senior Vice President, RIL, issues the largest PO in the history of RIL to FDSL for Department of Posts order worth INR 1000 crores. The PO also contains terms relating to payments to be made to FDSL for this order.
29/07/2016	RIL files a reply with SEBI giving the **estimates** of the loss and stating that the actual loss can only be ascertained with a degree of certainty upon completion of internal investigation.
15/10/2016	RIL informs BSE that as per approval of Hon'ble NCLT for capital infusion, the Board of Directors has considered and approved the cancellation and issuance of new shares to promoter company and on basis of which INR 1123 crores were received by the *Company* from the parent company.
17/11/2016	The Internal Investigation team submits its report to Audit Committee and in turn to Statutory auditors.
18/11/2016	Financial statements released to BSE by the *Company* for the FY ended March 31, 2016, within a day of submission of final report to Audit Committee and the Statutory Auditor showing a loss of INR 1118 crores.

July'16 to February-March'17	Business operations keep on happening with FDSL, Purchases made during the FY for INR 300+ crores (as per Forensic Audit Report) and Payments being made to FDSL for around INR 250 crores)
31/07/2017	Financial Statements for the FY ended 31/03/2017 released by the *Company* to BSE.

34.37. Keeping in view the above timelines and sequence of events, *Noticee no. 3* has submitted that the Audit Committee and Board of Directors of RIL had filed a frivolous complaint with SEBI against him and others, to gain favourable ground before the Hon'ble NCLT, for getting fund infusion from parent company for INR 1123 crores. In this regard, he threw light upon the fact that the loss estimates in July 2016 were exceptionally close to the final losses declared in the revised Financial Statements finalised in November, 2016. This was a devise deliberately crafted for Ricoh Japan to infuse funds into India, by-passing the provisions of RBI and Companies Act and without having to follow a long and time taking process of compliances of the existing rules. Therefore, *Noticee no. 3* alleged that higher losses were purposely made up to support Ricoh Japan's infusion of funds into RIL.

34.38. He has also pointed out that RIL had filed a complaint with Police/EOW on May 12, 2016 against him and others but didn't include the name of *Noticee no. 1*, although he was named as an accused in complaint filed to SEBI in April, 2016 which shows attempt on the part of RIL to shield its directors and other senior management at the cost of lower management employees like *Noticee no. 3* himself.

35. *Noticee no. 4*, by way of letters dated August 10, 2020 and July 21, 2021, has made his submissions as follows:

35.1. *Noticee no. 4* has submitted that he was hired in RIL on January 16, 2008 as a Senior Manager for taking care of Internal IT. He worked as a technical manager in RIL for 4 years and was promoted as the Internal IT

Head & then as the CIO of the *Company*. In 2011, the *Company* expanded into IT Services business by acquiring an IT services company. The budget guidelines used to come from Ricoh Japan and Singapore and RIL was supposed to achieve it.

35.2. *Noticee no. 4* has stated that, as a Senior Vice President & Chief Operating Officer, he was *inter-alia* heading the sales and his job was to oversee sales, presales & technology teams. During the whole period, he was never a KMP of RIL. Further, Finance, Accounting, Supply Chain, Logistics, Sales Procurement etc. were never a part of his roles and responsibility and were taken care by the concerned Finance and SCM departments of RIL. Similarly, Revenue recognition, Billing, Procurement, Purchase, Delivery & Audit was handled by the SCM & Finance teams. At no point of time, any red flags were raised by the concerned SCM team, Finance team and Audit team during the processing of the orders.

35.3. Similar to other *Noticees*, *Noticee no. 4* has also stated that MeraCRM was used on trial basis for automating sales order process. It was not standardised till 2015-16. He has also reiterated the limitations of Advance software, forcing RIL to use Tally.

35.4. *Noticee no. 4* has claimed to have no role or responsibilities regarding use of Tally for any purpose as the Accounting & SCM for which Tally was used, did not come under him. Also, Revenue record and recognition was not a part of his roles or responsibilities.

35.5. *Noticee no. 4* has submitted that there were about 26 branches or locations each having its own Sales, Finance & SCM team. The sales team in each location had sales people from 5 different Industry Verticals (Manufacturing, BFSI, Education, SVP & Healthcare); each location also had sales & service people from 5 different Business units (MFP, PP, ITS,

LP, Service). All these locations reported to the respective regions (North, East, South & West). So, an order could come from any of these sales people and get processed in any of the branches under any vertical & business unit. The structure along with the high volume of the orders made it impossible for him to directly look into each and every order. Also, he was travelling to various branches for customer visits and marketing events most of the times, mostly 3-5 days every week.

35.6. With respect to the allegations in respect of siphoning off funds to RNMIT and Rudra Enterprises, he has stated that neither he nor his spouse had any control over those companies and all their transactions have nothing to do with his work at RIL. Not a single rupee has been paid either directly or indirectly to him or his wife by Rudra Enterprises, FDSL or RNMIT.

35.7. With respect to the allegation of payment of college fee of his daughter by *Noticee no. 6*, *Noticee no. 4* has clarified that his daughter was admitted in Curtin University, Singapore. This required urgent transfer of her fees to the university. However, his bank account did not have the facility to send money internationally. *Noticee no. 6* helped him by paying the fees from his personal account, as he had such facility in his account. In return, *Noticee no. 4* has stated to have paid the money back to *Noticee no. 6*, acknowledgement of which had already been shared with SEBI.

35.8. With respect to his trip to Dubai, *Noticee no. 4* has submitted that there were multiple instances where he and his family had gone on trips organised by various companies and vendors like Lenovo, Microsoft, Acer etc. for their business & product promotion event. Many other employees from all business units of RIL had gone on similar trips organised by FDSL and other companies both domestic and overseas as this is a

standard industry practice. Even RIL used to organise such trips for its dealers & vendors, multiple times every year.

35.9. With respect to the trip to Aurangabad with *Noticee no. 6*, *Noticee no. 4* has submitted his response on the same lines to that of *Noticee no. 3*. He has also stated that *Noticee no. 6* had travelled with many other RIL employees including its Japanese executives to various cities. As the Sales Head, he was always instructed by *Noticee no. 2* and other Japanese executives to concentrate on building strong relationships with customers & vendors.

36. *Noticee no. 6*, by way of letters dated August 13, 2020, July 22, 2021 and April 29, 2022 has made his submissions as follows:

36.1. *Noticee no. 6* has raised a preliminary objection stating that vide order dated 25th September, 2020, the Hon'ble NCLT, New Delhi has approved a Resolution Plan for FDSL. This made him an ex-director of FDSL. Referring to Section 32A of Insolvency and Bankruptcy Code, 2016, *Noticee no. 6* has contended that once resolution plan is approved, he cannot be proceeded against for any violation of law done under the management of FDSL.

36.2. *Noticee no. 6* has raised another preliminary objection with respect to Forensic audit of FDSL. He has stated that FDSL was listed on NSE Emerge in January 2016. Prior to that, FDSL was a Private Limited with no public funds being infused or utilised by FDSL. Therefore, SEBI has no power to audit the accounts of FDSL prior to that date.

36.3. Similar to other *Noticees*, *Noticee no. 6* also had sought a copy of Audit Report of M/s CJS Nanda & Associates even if the same was not used or relied upon by SEBI in the SCNs issued to the *Noticees*.

36.4. *Noticee no. 6* has denied having any influence or control over the activities of RIL and has stated that he was neither a director nor employee of RIL

and FDSL and was only a business partner of RIL.

36.5. *Notice no. 6* has also alleged irregularity on the part of Resolution Professional of RIL and stated that, on August 05, 2020, the Hon'ble NCLAT had set aside the Resolution plan due to irregularities and illegalities conducted by the Resolution Professional of RIL while carrying out his duties. As the Forensic Audit has been conducted under supervision of such Resolution Professional, no reliance can be placed on report and opinions of report.

36.6. *Noticee no. 6* has submitted that RIL had written off the dues from FDSL in Financial Year 2017-18, however, they have filed a claim of approximately INR 450 crores from FDSL with Resolution Professional of FDSL. In case RIL has already written of the dues from FDSL in its books then there is no reason why they would file a counter claim with Resolution Professional of FDSL which has been discarded by the Resolution Professional of FDSL. This is evident of the fact that all transactions between FDSL and RIL were purely business transactions and as per the settled law, any business dispute will fall under the purview of Arbitration Act or Civil Court of law and not come under SEBI jurisdiction.

36.7. *Notice no. 6* has also pointed out that, during the cross-examination of the authors of the FAR, Mr. Akshay Jain of Pipara stated that the forensic audit team was co-ordinating with Mr. Amit Padhi, the Legal counsel of RIL. However, he couldn't provide any authority or confirmation regarding appointment of Mr. Amit Padhi to deal with the *Forensic Auditor*, which puts serious doubts over the authenticity and correctness of the Data provided to Pipara by Mr. Amit Padhi.

36.8. In continuation to that, *Noticee no. 6* has claimed that the data provided

by RIL to the *Forensic Auditor* is manipulated, biased and selective as FDSL has filed a claim of INR 511 crores against RIL while, through this Forensic Audit Report, RIL has tried to malign FDSL so as to protect its own financial interest.

36.9. With respect to the allegation of providing favours to the employees of RIL, *Noticee no. 6* has contended that, on the contrary to this allegation, the new management continued to have faith in FDSL and continued to give him orders including an order worth of INR 1000 crores in July 2016. Further RIL had also released an approximate amount of advances of INR 250 crores with respect to that order. He has also contended that he had continued to engage the new management of RIL even when the forensic audit by PWC was being conducted, as all these engagements were purely business in nature which are normal in IT industry.

36.10. With respect to accepting orders against negative inventory, *Noticee no. 6* has submitted that FDSL had presence in 22 states across India with 66 offices. There might be some accounting delays due to which the records had mentioned of the negative stock, while the stock was under branch Transfer from other branches. Such accounting delay is only a process implementation gap in system and cannot be considered as fraud.

36.11. *Noticee no. 6* has also stated that the VAT Return of FDSL would show that they had paid tax for all such transactions. The government's VAT license to all such parties provides sufficient evidence of genuineness of transactions entered into by these parties.

36.12. With respect to the non-availability of certain suspected entities at their given addresses, *Noticee no. 6* has reiterated the submissions of *Noticee no. 3* stating that the said entities might have moved from their addresses over time. He has additionally stated that the *Forensic Auditor* failed to

check VAT returns filed by such companies, which could have given the true and current addresses of the said parties.

36.13. *Noticee no. 6* has denied the allegation that the companies like Nike Sales Corporation, Redhex, PS Techno Solutions Pvt. Ltd, Jindal Infra Solutions Limited, Aastha Impex, etc. were under the same management or related to him. He has stated that he was not a director or employee or KMP or shareholder of any of these companies at any given point of time. He has also denied any connection with AS International and Connect Residuary Pvt. Ltd. He has explained that the act of him forwarding the POs and other documents of these companies to the management of RIL was a part of the business process followed whereunder he routed the business proposals of customers/vendors of FDSL through him only to RIL. He was doing this so as to avoid losing those customers/vendors who would otherwise have gone directly to RIL.

36.14. With respect to the finding that the sales were being made to suspected entities on the last date of the month, *Noticee no. 6* has stated that generally sales managers work in the field to procure and mature the orders during the first 3 weeks of the month and stay in the office in the last week to co-ordinate with different departments so as to get the invoicing carried out to customers. However, he showed ignorance of the specific process followed by RIL in this respect.

36.15. With respect to the allegation of giving preferential treatment to FDSL in RITS Partner Programme, *Noticee no. 6* has claimed that RITS Partner Program had around 10+ partners and more than 100+ dealer partners. Further, FDSL was a Business Partner of all major IT companies in India and not only of RIL. As a part of RITS Partner programme, FDSL was

given a target of more than INR 100 crores for it to achieve. In fact, the program had continued during the tenure of new management also.

36.16. *Noticee no. 6* also claimed that FDSL had lost INR 511 crore to RIL which the *Forensic Auditor* has failed to mention in its report. On the other hand, Pipara has tried to project business loss of INR 55.21 crore to RIL which is doctored and false.

36.17. With respect to the allegation of preferential treatment to FDSL through vendor financing, *Noticee no. 6* has refuted the allegation by stating that any payment through Letter of Credit and Bill discounting is not allowed by RBI for working capital funding of any company. Letter of Credit and Bills are only issued against material sales or services and not for working capital. The *Forensic Audit Report* has not proved any illegal gain which has accrued to FDSL.

36.18. With respect to the allegation of diversion of funds of RIL to RNMIT, *Noticee no. 6* has stated that RNMIT has never done any business with RIL. The payments made to RNMIT by FDSL were against business transactions. Neither he nor his family members have taken a single rupee from RNMIT & RIL. The spouse of RIL employees were directors for brief period but had nothing to do with RNMIT transactions or business.

36.19. With respect to irregularities in transaction regarding server, *Noticee no. 6* has stated that the server shown in the inventory was without any software, license and services whereas the same was billed to RIL after including all the above. In fact, RIL itself had earned good margins (of INR 12,85,500/-) from the sale of the aforesaid server to Future Human Development Ltd. for INR 1,82, 97,500/-.

36.20. *Noticee no. 6* has submitted that all projects and business transaction done

by FDSL with RIL were under RITS Partner Program. Under this program, FDSL executed more than 20 projects and also got largest project of Department of Post worth INR 1370 crores. The *Forensic Auditor* has completely failed to prove any undue benefit being passed on to FDSL due to RITS partner program.

36.21. With respect to the payment of fee of the daughter of *Noticee no. 4*, he has made his submissions on the same lines as of *Noticee no. 4*. He has also stated that *Noticee no. 4* had later returned the money to him.

36.22. With respect to trips of *Noticees no. 3* & *4* allegedly sponsored by him, *Noticee no. 6* has stated that it was a type of business promotion activity common in all the IT industry. He has reiterated that the Aurangabad trip was a pilgrimage trip to Shirdi in celebration of receipt of order of Department of Post for INR 1300 crore by RIL for first time in its business.

36.23. *Noticee no. 6* has stated that he was never involved in any internal matter relating to sales or purchase or finance of RIL, on the basis of which it is alleged that he was the main facilitator in fraud in RIL. He has also stated that the *Forensic Auditor* has failed to state even one instance where any payment was made to FDSL without proper approved and authorised PO or agreement from RIL. It was always upon RIL to decide which business transaction to do or not with FDSL.

36.24. With respect to the allegation of sending editable PO of clients to RIL through FDSL, *Noticee no. 6* has clarified that it was only one instance where any such document was shared. There is no evidence that any editing was done by either FDSL or *Noticee no. 6* himself in any such mentioned PO or tax invoice.

36.25. *Noticee no. 6* has contended that, for listing of a company on NSE Emerge

platform, the criteria of turnover is not a consideration at all. Even an INR 2 crore company can apply and get listed on NSE Emerge Platform. Listing is done on the basis of due diligence process of NSE and is as per Listing procedure of NSE as well as SEBI.

36.26. With respect to the allegation of wrongdoing in the transactions relating to UID Kits, *Noticee no. 6* has stated that the loss, if any, made by RIL on UID Kits is not a responsibility of FDSL.

36.27. With respect to his email to an employee of RIL in respect of appointment of KPMG as auditor, *Noticee no. 6* has stated that the said mis-endeavours were public knowledge and the said email was sent to him by a Chartered Accountant for information purpose only, which he forwarded RIL. He has also stated that this information did not have any impact on the decision of the Board of Directors of RIL.

36.28. With respect to transactions of FDSL with Rudra Enterprises, *Noticee no. 6* has stated that these were business transactions which were duly recorded in the ledger of FDSL and VAT was paid for the same.

Background of the matter and Preliminary Objections

37. First of all, I find it important to recall the background of the present matter in brief, which has ensued the matter to reach the stage of the instant proceedings. RPG Ricoh Limited was established as a joint venture between RPG Group, India and Ricoh Company Limited, Japan. The *Company* was incorporated on 22nd October, 1993 in Maharashtra. Subsequently, in 1998, Ricoh Japan purchased 34% stake of the *Company* held by RPG Group and became sole promoter of the *Company*. Adding to this, a preferential allotment was issued in May, 1998, due to which the shareholding of Ricoh Japan in RIL increased to 76% by virtue of the said preferential allotment of shares. Due to this, the

management of the *Company* was changed and majorly controlled by its parent company, Ricoh Company Limited, Japan. Sometime after that, a part of this promoter's shareholding was transferred to NRG Group Ltd, a United Kingdom incorporated subsidiary of Ricoh Company Ltd, Japan. However, it is observed that the promoter shareholding of RIL was 73.60% in 2013 which remained constant till 2018.

38. In Financial Year 2001-02, the *Company* appointed *Noticee no. 7* as its statutory auditor. As there was no restriction on the number of years for which a statutory auditor can continue with a company, *Noticee no. 7* continued as the statutory auditor of the *Company* for next 15 years till Financial Year 2014-15. In 2013, the new Companies Act, 2013 was enforced and Section 139 of the said Act mandated for every listed company to change its statutory auditor at least once every 10 years. In pursuance thereof, BSR was appointed as the statutory auditor of the *Company* for a period of five years from the date of 22nd Annual General Meeting (September 24, 2015) till 27th Annual General Meeting.

39. As regards the management of the *Company*, I find that *Noticee no. 2* was appointed as MD and CEO of the *Company* w.e.f. April 01, 2011 and he continuously held that position till March 31, 2015. Subsequently, he became Non-Executive Director of the *Company* from April 01, 2015 till July 25, 2016 and *Noticee no. 1* was elevated to the position of MD & CEO w.e.f. April 01, 2015 till April 02, 2016 after which he was sent on leave by the *Company*. Subsequently, *Noticee no. 5* was appointed as MD & CEO of the *Company* w.e.f. April 13, 2016 and he continued in the said position till April 01, 2018 after which he was also sent on leave subsequent to passing of *Interim Order* by SEBI wherein certain observations were made against him.

40. It is relevant here to refer to the financials of the *Company* when the abovementioned persons viz. *Noticees no. 1, 2* and *5* were at the helm of the affairs

of the *Company* successively, which are tabulated as below:

(INR in Lakhs)

Financial Year →	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total Revenue	29804	43324	63312	105047	165462	113729	122669	68987
Net Profit	1638	-261	-132	1723	3390	-110909	-32652	-89375

From the above, it can be seen that, since the appointment of *Noticee no. 2* as MD & CEO of the *Company* on April 01, 2011, the revenue of the *Company* started growing at an extraordinarily high rate. The same trend can also be seen in the net profit which shows that after the initial losses incurred in Financial Years 2011-12 and 2012-13, the Net profit of the *Company* has grown at an exceptionally high rate. This trend of extraordinarily high growth continued till Financial Year 2014-15 when *Noticee no. 2* retired from the position of MD & CEO and *Noticee no. 1* was elevated as MD & CEO in his (*Noticee no. 2*) place. All the above noted extraordinary high growth in turn over as well as in profit rate was attributed to IT Services vertical of RIL and, in this connection, I have come across numerous statements have been given by the management of RIL in media therein optimistically anticipating similar growth rate in future. The same can be found in a simple google searches just by using the name of the *Company*. During the aforesaid entire period, not a single red flag was raised by anyone in the *Company* and no objection, whatsoever, has been raised by the statutory auditor of the *Company* viz. *Noticee no. 7* with respect to any aspect of financial transactions of or any commercial contracts signed by the *Company*. This is also a formally accepted position which has not been disputed by any of the *Noticees*. It is also relevant to note here that *Noticee no. 2* continued being in the Board of Directors of the *Company* as a Non-Executive Director even after retiring from his position as its MD.

41. Expectedly, the afore mentioned exceptional growth in revenue and profit led to

price rise of the scrip of the *Company* on BSE wherein the scrip price rose from a low of INR 24.20 on January 03, 2012 to as high as INR 1072.25 on July 02, 2015. It is thus clear that the shareholders have relied on the allegedly misstated financial results published by the *Company* during the aforesaid period, basing their investment decisions on those financial results which can be evidently visible in the extraordinary price rally in the scrip of RIL. However, the price of the scrip started falling when RIL delayed disclosure of its results for the quarter and half year ended September 2015 within the prescribed due date and the news of corporate governance issues within the *Company* started making rounds in the media.

42. When BSR was appointed as statutory auditor of the *Company* in FY 2015-16, and it started auditing the half yearly financial results for half year ended September 2015, it raised various questions regarding the genuineness of the POs, existence of its customers, inadequacies in the financial controls, irregularities in the transactions between RIL and its customers & vendors in IT Services business, relationship and linkages between RIL's suppliers & customers, proof of delivery etc. made to various customers in its limited review of financial results for half year ended September 2015. Accordingly, BSR recommended further review of these transactions.

43. Afterwards, the *Company* appointed M/s S S Kothari & Mehta to conduct further review of the financial statements of the *Company* for the quarter and half year ending September 2015. However, BSR raised objection upon the scope of review being assigned to M/s S S Kothari & Mehta.

44. Thereupon, the *Company* conducted forensic audit of its books of accounts for the period from April 01, 2015 to September 30, 2015 i.e. for a period of six months only by engaging PwC, which submitted its preliminary findings to the *Company* on April 20, 2016 wherein PwC stated that the financial statements of

the *Company* for the quarter ended June, 2015 & September, 2015 did not reflect the true & fair picture of its affairs. Pursuant to this report, on the same day, RIL informed SEBI that its financial statements for the quarters ended June 30, 2015 and September 30, 2015 did not reflect true and fair view of its state of affairs and requested SEBI to conduct an investigation pertaining to the incorrect financial statements of RIL.

45. Thereafter, RIL, vide another letter dated July 19, 2016, disseminated to BSE that the unaudited estimate of the losses incurred for the financial year 2015-16 was INR 1,123 crore on a revenue of INR 1137 crores during the same time. Upon such disclosure, the Promoters of RIL, Ricoh Company Ltd., Japan and NRG Group Ltd., decided to infuse a funds of INR 1123 crores in the *Company* in order to help the *Company* recover from the said loss. For that purpose, Ricoh Company Limited, Japan moved an application to NCLT, which on October 15, 2016 granted permission to promoters to infuse funds to the said extent without diluting the shareholding of minority shareholders of the *Company*. The recapitalisation was done through a scheme wherein the shares of the *Company* held by NRG Group Limited (a co-promoter) were cancelled and preferential issue of the same number of shares with the same rights was made to NRG Group Limited for a consideration of INR 1123 Crores.

46. Despite such infusion of funds, the financials of the *Company* didn't change for better and it continuously suffered heavy losses in Financial Years 2016-17 and 2017-18 also, after which Ricoh Company Ltd., Japan decided not to extend any further support to the *Company* and the *Company* was admitted under Corporate Insolvency Resolution Process (**CIRP**) vide order dated May 14, 2018 of NCLT. Subsequently, vide order dated November 28, 2019, a resolution plan submitted by a consortium of Mr. Kalpraj Dharamshi and Ms. Rekha Jhunjhunwala (hereinafter referred to as '**Resolution Applicants**'/'**RAs**') was accepted by the Hon'ble NCLT, Mumbai. The said Order of Hon'ble NCLT has attained finality

by virtue of Judgment dated March 10, 2021 of the Hon'ble Supreme Court of India. In terms of the approved resolution plan, the RAs floated a delisting offer and after fulfilling all the requirements, got the issued equity shares of the *Company* delisted. The aforesaid narration of events shows how RIL, which was soaring high with extraordinary results and growth rate, both in terms of revenue and profit till FY 2014-15 ultimately went into CIRP and its equity shares got delisted in terms of a resolution plan approved by the NCLT. The delisting offer was provided at a price of INR 50 per share; thereby causing massive loss to the investors of the *Company*.

47. In the meantime, upon receipt of a letter dated April 20, 2016 from the *Company* itself, SEBI conducted its own investigation to examine the wrongdoing, if any, that had happened inside the *Company* and the roles of various entities and KMPs connected with the *Company*. While RIL, in its above mentioned letter, had stated that the financial results for quarters ended June 2015 and September 2015 were wrong, in the course of investigation that ensued after receiving a letter from the *Company*, it was revealed that the transactions relating to the misstatements in the books of accounts of RIL were spread across FY 2012-13, FY 2013-14, FY 2014-15 and FY 2015-16. Further, it was observed from the provisions/write-offs made in the Annual Report of the *Company* for FY 2015-16 that the *Company* suffered a loss owing to non-recovery from debtors, non-existence of inventory, etc. Along with that, many financial transactions with FDSL and other allegedly connected entities of it were also found suspicious.

48. Under the circumstances, in order to prevent further damage to the securities market and in order to protect the interest of the investors, an *Interim Order* was passed observing *prima-facie* that *Noticees no. 1 to 6* and one Mr. Bibek Chowdhury had acted in violation of the provisions of Section 12A(a), 12A(b) and 12A(c) of SEBI Act read with Regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(k) and 4(2)(r) of PFUTP Regulations. Consequently, vide the aforementioned *Interim Order*,

certain directions were passed against the above mentioned entities. At the same time, it was also directed to appoint an independent audit firm for conducting a detailed forensic audit of the books of accounts of RIL for the FY 2012-13 onwards till the date of the *Interim Order*.

49. Subsequently, vide a corrigendum dated March 06, 2018, BSE was directed to appoint an independent auditor/audit firm for conducting a detailed forensic audit of the books of accounts of RIL for the financial year 2012-13 onwards till date of the aforementioned corrigendum. In compliance with the said direction, BSE appointed CJS Nanda & Associates for conducting the forensic audit of the books of accounts of RIL. Meanwhile, aggrieved by the *Interim Order*, *Noticee no. 6* approached the Hon'ble SAT by way of an appeal, which came to be rejected with a direction to SEBI to consider his plea, if he appears before SEBI, and pass appropriate order thereon as expeditiously as possible.

50. Subsequently, SEBI passed *Confirmatory Order* on August 16, 2018 wherein the directions given vide *Interim Order* were confirmed against all the entities. I find it relevant to mention here that it was noted in the *Confirmatory Order* that RIL was not extending full co-operation to the then forensic auditor M/s CJS Nanda and Associates in providing the documents, information and clarifications as required by the said auditor, in a timely manner. Taking a serious view of the same, RIL and its directors were once again directed via the said *Confirmatory Order* to extend all necessary co-operation to the then forensic auditor by making available the required documents and clarifications, strictly within the timeframe specified therefor.

51. In the meantime, SEBI found that since most of the alleged wrongdoing in the accounts of RIL were consequent to the *Company*'s transactions with FDSL and had corresponding impact on FDSL's books also, and since most of the suspected entities were *prima-facie* found connected to FDSL or *Noticee no. 6*, who

was the Promoter and Managing Director of FDSL at the relevant time, it was felt necessary to conduct forensic audit of FDSL along with RIL to understand the full extent of fraud committed, if any. In view of this, the mandate of the forensic auditor viz. CJS Nanda & Associates was expanded to involve forensic audit of FDSL along with that of RIL.

52. Thereafter, upon perusal of the forensic audit report submitted by M/s CJS Nanda & Associates, SEBI found that it lacks the basic materials particulars in dealing with the issues and was not complete in many aspects, hence, another forensic auditor, viz. Pipara was appointed by SEBI on February 20, 2019 to conduct forensic audit into the books of accounts of RIL as well as FDSL.

53. The scope of the forensic audit mandated to Pipara was to verify, *inter alia*, the following:

a. Manipulation of Books of Accounts of RIL and FDSL;
b. Misrepresentation including of financials and/or business operations of RIL and FDSL;
c. Wrongful diversion/siphoning of funds by promoters/directors/ key managerial persons of RIL and FDSL.
d. Examination of the emails, chats and any modes of communication between the persons/ KMPs of RIL and FDSL and other entities/beneficiaries.
e. Examination of bank accounts and analysis of fund trails among the following to determine whether any benefit had accrued to the persons/ KMPs, directly or indirectly, from RIL/FDSL as a result of the alleged irregularities committed by:
    i. KMPs of RIL and their immediate relatives;
    ii. *Noticee no. 6* and his immediate relatives;
    iii. Companies, firms, trusts, etc. in which the aforesaid persons are connected/beneficiaries or exercise significant managerial control;

f. Examination of possible complicity of the erstwhile auditors of RIL and FDSL

g. Examination of the role of the Japanese parent company of RIL in the fraud, if any.

Accordingly, forensic audit of RIL and FDSL, both of which were under CIRP moratorium, was conducted by Pipara and the final report was submitted by it on October 25, 2019, after taking into consideration the clarifications sought by SEBI.

54. I have carefully considered the allegations made against the *Noticees* in the SCN, their replies and submissions made before me during personal hearing and the materials available on record. However, before adverting to deal with the alleged violations of the provisions of SEBI Act, PFUTP Regulations and SCRA by the respective *Noticees*, I find it relevant to first deal with certain preliminary objections raised by the *Noticees*. These preliminary objections can be placed under the following headings:

54.1. Lack of jurisdiction of SEBI

54.2. Requests for copy of report of M/s CJS Nanda & Associates;

54.3. Applicability of Section 32 of IBC;

54.4. Allegations with respect to the fitness of the *Forensic Auditor*;

54.5. Request for cross-examination of *Forensic Auditor* and the authors of Investigation Report of SEBI;

54.6. Sufficiency of forensic audit by Pipara;

54.7. Non-implication of certain other persons;

54.8. Non-involvement of certain transactions of RIL with FDSL.

55. First of all, *Noticees no. 2* & *5* have contended that the present proceedings is without jurisdiction. The said submission has been advanced after contending

that SEBI had stated before the Hon'ble Bombay High Court and Hon'ble Supreme Court of India that the Investigation Report is not a relied upon document, whereas in terms of applicable provisions of law, SCN under Regulation 10 of PFUTP Regulations can be issued only after consideration of Investigation Report.

56. Here, I am of the view that *Noticees no. 2* & *5* have misconstrued the submissions of SEBI before the aforementioned higher courts and have completely missed the context in which SEBI was advancing its arguments before the Hon'ble Bombay High Court and Hon'ble Supreme Court of India to defend its stand on sharing a copy of Investigation Report with the *Noticees*. The explanation that was offered before the aforementioned two Hon'ble Courts for not providing a copy of Investigation Report to the *Noticees,* was on the ground that the Investigation Report is only an opinion of Investigation Authority made on the basis of evidence available on record. The Investigation Report is not an independent piece of evidence, gathered in the course of fact finding exercises. It is not a document which has been used or relied upon as an independently verifiable piece of evidence either to allege or to establish the allegations made on an entity. As the name suggests, the investigation report is a compilation of information/documents gathered or ascertained in the course of fact finding exercise, based on which an action by issuance of show cause is initiated enclosing therewith the documents that are collected during the course of facts finding exercise and necessarily relied upon for making the allegations in the SCN. Further, there were umpteen number of judicial decisions supporting the view of SEBI that Investigation Report is not itself a relied upon document in the show cause to support the allegations, therefore, non-furnishing of the same was not held to be prejudicial to the interest of an entity in defending the allegations. The denial of furnishing the Investigation Report has been a subject matter of judicial scrutiny in the past as well, where it has found held that the show cause is nothing

but a recital of the facts unearthed in the course of finding the facts. Therefore, in the absence of any grievance against non- furnishing of documents to an entity that have been referred to and relied upon in support of the said allegations made in the show cause notice, the denial of the copy of the investigation report is not fatal to a proceedings so as to warrant any interference and it does not demonstrate any reason to hold the investigation report as an independently verifiable piece of evidence used or likely to be used to establish a charge against an entity. It was under these circumstances, a submission was advanced by SEBI before the Hon'ble High Court of Bombay stating that the Investigation Report is not being used as a separate evidence either as an enclosure to the SCN or otherwise to establish the allegations against the petitioners therein and at the same time, it was further submitted that all the documents that have been relied upon to allege and establish the allegations in the SCN, have been duly furnished to the *Noticees*. Further, it has been explained that the SCN so issued in the matter contains all the facts as unearthed in the course of fact finding exercise and all the documents that have been ascertained in the process and have been used to allege and to establish the allegation and further, it has been made clear that nothing which have not been made available to the entity would not be used for establishing the allegation against it. In fact, even a cursory comparison of Investigation Report and SCN would show that the allegations in the SCN are verbatim copies of findings of Investigation Report. In the light of such facts, the submission of SEBI before the higher courts was that the Investigation Report was not a separate piece of evidence that was used to make the allegation but was only a document containing compilation of facts which have been found with the help of supporting evidences as ascertained in the course of the fact finding exercise.

57. Further, I find from the para 18(iv) of Special Leave Petition filed by *Noticees no. 2* & *5* that they themselves have nowhere contended that the Investigation Report

is a relied upon document and their contention was merely that it is a relevant document for the purpose of Regulation 9 & 10 of PFUTP Regulations. In the light of such a submission of *Noticees no. 2* and *5*, the Hon'ble Supreme Court of India, in their Judgment dated February 18, 2022 in the matter of *T Takano vs. Securities and Exchange Board of India* while directing SEBI to supply the Investigation Report to the *Noticees no. 2* & *5* has also observed at para 51 of the said order that '*the findings of investigation report are relevant for the Board to arrive at the satisfaction on whether the Regulations have been violated*'. It needs to be highlighted here that at no point of time it has been held by the Hon'ble Supreme Court that the Investigation Report is a separate independently verifiable piece of evidence which has been 'relied upon' by SEBI to reach a decision as to proceed with inquiry against the *Noticees no. 2* & *5*. Instead, the Hon'ble Apex Court has observed that it is a report which is relevant for the competent authority to form an opinion under Regulation 10 of PFUTP Regulations. Therefore, the submission of *Noticees no. 2* & *5* that the present proceedings is void in terms of Regulation 10 of PFUTP Regulations as SCN was issued without consideration of Investigation Report, is without merit.

58. Some of the *Noticees* have sought copies of report of M/s CJS Nanda & Associates who was initially appointed as a forensic auditor by BSE in compliance with the direction issued under *Interim Order*. I note from the materials available on record that M/s CJS Nanda & Associates had submitted its report to BSE which was forwarded to SEBI. However, upon examination, the said forensic audit report was found to be lacking in many aspects of facts of the matter and had not sufficiently touched upon the essential issues as well as missed on proper examination on various counts, consequently suffered from various inadequacies and was found wanting in crucial details. Hence, considering the sensitivity and seriousness of the allegations of fraudulent financial transactions involved in the matter that were first raised by the *Company* itself before SEBI, and the fact that

despite having an increase in the business turnover of the *Company*, it was incurring huge losses by the end of Investigation Period and the *Company* was indulged in maximum business transactions with a single company called FDSL and related entities of its promoter, prompted SEBI to conduct a comprehensive audit so as to go deep into the alleged financial transactions and all related aspects that could have possibly caused such huge losses to the *Company*. Accordingly, SEBI appointed Pipara as the forensic auditor in the matter, and the said firm after conducting its forensic audit, submitted its report to SEBI on October 25, 2019. Based on the findings and materials collected by Pipara, the relevant issues that emanated out of it were examined by an internal investigation of SEBI and based on the findings of the said internal investigation of SEBI, the SCN in the present matter was issued to the *Noticees*.

59. In this regard, I note that the forensic audit report of M/s CJS Nanda & Associates was never placed before the Competent Authority either for consideration of the findings therein or for taking it forward for any further action based on the said report. Thus the said forensic audit report is found have not been acted upon at all in any proceedings against any entity whatsoever. It is also not the case of the *Noticees* that the said report has even remotely influenced the decision of the Competent Authority. Instead, the present case is completely based on the facts found in Pipara report and the findings and conclusions drawn during the course of further investigation conducted by SEBI. I find that copies of both the aforesaid reports viz. Pipara report and SEBI's Investigation Report have been provided to all the *Noticees* along with all the relevant annexures. Therefore, as the report of M/s CJS Nanda & Associates is already a closed chapter, and had no role to play at the time when the Investigation Report in the present matter was approved and consequently when the present proceedings were initiated, M/s CJS Nanda & Associates' forensic audit report is neither a relied upon nor a relevant document for the purpose of present proceedings.

Seeking report of M/s CJS Nanda & Associates is nothing but an attempt to make a roving and fishing enquiry on the part of the *Noticees* so as to somehow create a defense out of the same which is not only a farfetched demand but also an untenable ask that cannot be accepted as the said report is not material relevant for the purpose of present proceedings. To support the above observation, I would prefer to rely on the outcome of a Special Leave Petition filed by *Noticee no. 6* before the Hon'ble Supreme Court of India, praying *inter alia* to have a copy of report of M/s CJS Nanda & Co. claiming it to be a relevant document. However, after realising that it has not been able to make out even a *prima facie* case in support of its prayer before the Hon'ble Supreme Court and resultantly, having sensed the possible expected outcome of the said petition, *Noticee no. 6* withdrew the Special Leave Petition with the permission of the Hon'ble Supreme Court. Under the circumstances, I am of the view that no case has been made out by any of the *Noticees* to claim that non furnishing of report of M/s CJS Nanda & Associates has prejudiced their right to defend in any manner; consequently, I observe that the aforesaid contention of the *Noticees* is not tenable to deserve any further consideration.

60. In addition to the above, I find that *Noticees no. 2* & *5* have contended that not providing with all the documents in SEBI's file amounts to violation of Principles of Natural Justice. In particular, *Noticees no. 2* & *5* have sought copies of minutes of all the Board of Directors' meetings of RIL. In this regard, I note that the Investigation Report as well as the *Forensic Audit Report* relies upon only two Board Meetings, minutes of both of which have been duly provided to all the *Noticees* as annexures to the *Forensic Audit Report*. Further, all other relevant materials have been provided to the *Noticees* in the present matter. In the light of this, the request for minutes of all possible meetings of Board of Directors of RIL amounts to nothing less than a roving and fishing enquiry. In any case, not providing the documents which are not in possession of SEBI or that have not been collected

in the course of facts finding exercise by SEBI could not be held to be in violation of Principles of Natural Justice, more particularly, when the facts of the case show that *Noticee no. 2* was very much a part of Board of Directors of RIL during 2011-2016, which means that not only the agenda but also the minutes of all these Board of Directors' meetings were definitely sent and shared with him and he could have easily used them in his defence, if that would have helped his case. Therefore, this request for the minutes of all possible meetings of Board of Directors of the *Company* is nothing but an attempt on their part to create hindrance in taking the matter forward to conclusion.

61. *Noticee no. 6* has contended that, in terms of resolution of insolvency proceedings against FDSL under IBC, Section 32A of Insolvency and Bankruptcy Code applies in his matter and therefore he is not liable to be proceeded against for the violation of law, if any, committed by FDSL. In this regard, I note that Section 32A was incorporated in the said Act and became effective from November 28, 2019 which prohibits any action against the corporate debtor, its properties and its new management by law enforcement agency for any wrongdoing prior to CIRP proceedings. The said provision was incorporated to protect the incoming management of a company duly resolved under CIRP from the wrongdoings of previous management of such company as the new managements have no role in wrongdoings of such previous managements. However, no such clemency was granted to anyone in the old management of a debtor company under the said provision or any other provision of IBC. As *Noticee no. 6* belongs to the old management of FDSL, i.e. he was in control of FDSL prior to its resolution under CIRP, the said clemency provision is not applicable to him. The same has been specifically clarified under Explanation 2 of Section 32A. Therefore, the preliminary objection of *Noticee no. 6* stands on no feet.

62. Some of the *Noticees* have also raised objection on the fitness of Pipara as a forensic auditor on two grounds. Firstly, the objection on fitness is raised on the

ground of FIR against certain persons associated with Pipara, including Naman Pipara, the lead auditor of Forensic Audit in the present matter. In this regard, the *Noticees* have cited certain news articles wherein two Chartered Accountants associated with the firm viz. Pipara were arrested in Gujarat for certain allegations against them. In some of these FIRs, Naman Pipara was also named as one of the accused. Further, the *Noticees* have also referred to Order dated July 27, 2021 of the Hon'ble Gujarat High Court in *Naman Gyanchand Pipara through POA Gyanchand Bhanwarlal Pipara vs. State of Gujarat (Criminal Miscelleneous Application Nos. 11419/2021, 11422/2021 and 11635/2021)* wherein Naman Pipara sought anticipatory bail in respect of three FIRs filed naming him as one of the accused. In the said Order dated July 27, 2021, Hon'ble Gujarat High Court has only passed an interim direction wherein the authorities have been directed not to arrest him till next date. From the contents of the said order wherein the submission of the counsel of Naman Pipara has been recorded by the Hon'ble High Court, I find that there is an allegation regarding corruption in the matter therein. However, Naman Pipara has claimed to be not directly involved in the audits in respect of which such allegations were made, and the same has also not been countered by the Additional Public Prosecutor. Further, certain submissions of his counsel recorded in the said Order are relevant and being produced below:

"*3. Mr. Bhatt, senior advocate submitted that, the applicant is a reputed Chartered Accountant by profession and a partner of Pipara & Co., LLP, Chartered Accountants. They operates the firm from New Delhi Office and was a committee member for formulating, drafting and issuance of forensic audit standards by ICAI in India and* ***is an expert witness in three cases of CBI*** *and currently helping them in investigations.*

4. Mr. Bhatt stated that the ***Pipara & Co., LLP, Chartered Accountants, has been named as one of limited Forensic Auditors empanelled by SEBI and SFIO****…*." (emphasis supplied)

The aforesaid submissions indicate that Pipara is a well-known Chartered

Accountancy firm and its services have been used by various investigation agencies including CBI and SFIO over the period of time. It is well recognized by ICAI that its partner G P Pipara was a committee member that was entrusted for drafting of Forensic Audit Standards for ICAI. While FIR has been lodged alleging corruption on Naman Pipara, so far there is no finding of any court in this regard. In any event, his alleged involvement in other corrupt practices which came to fore subsequent to their appointment and after the forensic audit was undertaken in the instant matter, would not be a disqualification so much so to render it legally untenable to rely upon their *Forensic Audit Report*, unless a law to the effect provides for the same.

63. Further, it has also been alleged by some of the *Noticees* that Naman Pipara has lied during cross-examination regarding the arrest of two Chartered Accountants attached with his firm in the abovementioned corruption matter. I find from the afore quoted Order of the Hon'ble Gujarat High Court that arrest of one CA has been admitted by the counsel of Naman Pipara in the above matter. A question in this regard was raised during the course of cross-examination of Naman Pipara wherein he has stated that the CAs were not under arrest but were helping out the Anti-Corruption Bureau.

64. As I observed above, the alleged involvement of Naman Pipara or his CAs in any corruption case subsequent to submission of the *Forensic Audit Report* in this matter would not, in the absence of any legal mandate or compulsion of law, can be treated as their disqualification to perform the job of a forensic auditor, more so when there is no absolute finding to the effect of their involvement in that corruption case by any court of competent jurisdiction till date. The above information about the FIR and arrest etc. at the best may *prima-facie* raise some suspicion on the personal aspect of the *Forensic Auditor*, however, in the absence of any serious anomaly pointed out by any of the *Noticees* in the findings made by Pipara in the *Forensic Audit Report*, such allegations pertaining to unconnected

matters will not have any adverse bearing on the finding of the FAR in the instant matter the veracity of which has been duly supported by verifiable evidences and data pertaining to different aspects of financial affairs of RIL and FDSL which can't be questioned or disregarded merely for the reason that the authors of FAR have been named in some FIR pertaining to unrelated matters. The *Noticees*, who have raised questions on the fitness of the *Forensic Auditor*, have not been able to bring before me anything material or any evidence that can be said to be successful in refuting the facts and figures that are part of the findings of the *Forensic Auditor* or can provide me a basis for suspecting the motive or integrity of the *Forensic Auditor* who have prepared this forensic audit report. Further, in support of the above, it may be noted that Courts have spelt out in a number of cases that the rule of Evidence '*falsus in uno falsus in omnibus*' i.e. 'false in one thing, false in everything' doesn't apply in Indian Courts. One has to prove the answers as false, one by one and one false answer doesn't necessarily lead to presumption that the whole testimony of the witness, which for the present matter, is equivalent of the *Forensic Audit Report* and the replies given by the authors of the aforementioned Report during their cross-examination, can be labelled as false. Therefore, even when there is one incorrect act/answer on the part of the *Forensic Auditor*, it doesn't necessarily lead to the rejection of the whole *Forensic Audit Report* when the said alleged wrong answer is nowhere found to be directly related to the present proceedings. Under the circumstances, it is observed that the allegations that have been levelled in the SCN are based on the materials collected by Pipara as well as the material supplied by the *Company* during the course of the whole proceedings before SEBI. The *Noticees* have been afforded ample opportunity to defend the charges borne out of the facts so unearthed and evidences so collected both during the forensic audit as well as during SEBI's investigation, hence, no prejudice is shown to have been caused to them, whereby it can be held conclusively that the above information pertaining to the FIR or

corruption cases pending against the *Forensic Auditor* are sufficient to erase the credibility of the said *Forensic Audit Report* so as to negate the outcome of the entire exercise completely at the threshold itself, when nothing has been brought before me to dispute the huge losses incurred by the *Company* over the period on account of financial mismanagement of the *Company* and the kind of proximate business relations the *Company* had with FDSL during the relevant period.

65. I also find no merit in the contention of *Noticees no. 2* & *5* that they have not been given opportunity for proper cross-examination. In this respect, I note from the records that though a request for cross examination was received from the *Noticees no. 7* & *8* only, however, in order to ensure fairness and to enable them to defend themselves properly on the findings of *Forensic Auditor* and at the same time to ensure that the authors of FAR are not put to avoidable inconveniences by allowing *Noticees* to cross examine them one after another on several days, the opportunity of cross-examination of Mr. Naman Pipara and Mr. Akshay Jain was accorded to all the *Noticees* on one scheduled day, i.e. February 25, 2021. On the said day, all the *Noticees* except for *Noticees no. 2* & *5* availed the opportunity of cross examination of the two afore-noted authors of *Forensic Audit Report*. The said cross-examination was provided to all the *Noticees* after giving them the copy of *Forensic Audit Report* along with all its annexures as annexure to the SCN. Further, it is important to note that such opportunity was provided in virtual mode in the middle of COVID pandemic so that the *Noticees* are not deprived of natural justice. Interestingly the ARs of *Noticees no. 2* & *5* appeared during the proceedings but instead of availing the opportunity to cross examine the auditors with a view to strengthen their defense they chose to object to the proceedings itself and demanded that the cross examination be kept in abeyance till their SLP in Supreme Court is heard and disposed of.

66. As noted above, rather than availing the said opportunity afforded to all the *Noticees*, *Noticees no. 2* & *5* sought recusal from cross-examination on the ground

of pendency of their appeals before Hon'ble Supreme Court of India. At this stage, they were clearly appraised about the circumstances in which cross-examination was arranged and that all the relevant documents regarding cross-examination have already been provided to them and this proceeding of cross examination has no bearing with their petition before the Supreme Court. It was also proposed to them that they can go ahead with the cross examination, which could be in any case made subject to the outcome of pending proceedings before the Hon'ble Supreme Court of India, however, for reasons best known to them, *Noticees no. 2* and *5* decided not to participate in the cross-examination. I also find it relevant to mention here that the appeal that was pending before the Supreme Court was with regard to the copy of Investigation Report not being provided to them, (which ultimately culminated in the judgment dated February 18, 2022 in the matter of *T Takano vs. SEBI*) and the said appeal of *Noticees no. 2* and *5* was not on the issue of cross examination. The matter in question in the said judgment had no correlation with the FAR and the cross-examination of the authors of FAR, and consequently, there is no direction from Hon'ble Supreme Court at any point of time to stop cross examination proceedings in the matter. In fact, the Hon'ble Supreme Court had rather directed *Noticees no. 2* & *5* to file their respective replies to the SCN vide its order dated November 19, 2020, pursuant to which *Noticees no. 2* & *5* had to submit their respective written replied in respect to the SCN issued in the matter through separate letters dated November 27, 2020. In the aforesaid factual background, the contention raised by the *Noticees no. 2* and *5* that they were not allowed cross examination of the *Forensic Auditor* is a grossly specious statement misplaced on facts and has no merit for further deliberation as *Noticees no. 2* & *5* have themselves voluntarily recused to avail the opportunity under the pretext of the pendency of the aforesaid unconnected appeal before the Supreme Court only to delay the proceedings and to harass the witnesses who had ensured their presence in all the acute circumstances prevailing

at that point of time.

67. In any case, all the relevant materials in the matter have already been supplied to the *Noticees no. 2* & *5* on the basis of which the *Forensic Audit Report* was conducted. Therefore, I find that on balance of convenience, no right of *Noticees no. 2* and *5* has been infringed so as to force authors of *Forensic Audit Report* to appear in the present proceedings multiple times just as per the whims of these two *Noticees*. I note here that while it is the duty of the quasi-judicial authority to ensure making available of all relevant material to the *Noticees*, it is also the duty of quasi- judicial authority not to let the witnesses being harassed at the instances of any of the noticees. Therefore, while the opportunity of cross-examination was provided to *Noticees no. 2* & *5* even when cross examination was not sought for by them, and yet they themselves have let the opportunity get wasted by refusing to cross-examine the aforementioned witnesses by taking frivolous grounds. I am therefore of the view that sufficient opportunity was given to them and all the materials and evidences have been made available to them to defend the allegations, including the opportunity of cross examination, hence the contentions now being raised by them in the matter are futile and frivolous.

68. I would also like to point out towards the observations made at page 17 of the *Forensic Audit Report* wherein the *Forensic Auditor* has mentioned the hardships faced by it during the course of forensic audit, and referring to these observations some of the *Noticees* have contended that the *Forensic Audit Report* is incomplete, as all the data required by the *Forensic Auditor* were not available with it. Further, it has also been stated that the *Forensic Auditor* has only done sample survey of data and all the data during the investigation period has not been examined.

69. I find it relevant to mention at this stage, the harsh circumstances in which the forensic audit had been conducted while facing continued non-cooperation from both the companies viz. RIL and FDSL at one or other stage. The FAR, at page

17, has mentioned about all the hindrances posed by FDSL and its management/staff in handing over the relevant data and records for the purpose of forensic audit. At the same time, the management and staff of RIL had also posed hindrance in conducting the forensic audit at the initial stage. The same can also be ascertained from the fact that the *Confirmatory Order*, at para 32 on page 44, has specifically recorded non-cooperation on the part of RIL. Subsequently, the *Company* went into CIRP on May 14, 2018 and a Resolution Professional was appointed by the Hon'ble NCLT, pursuant to which the collection of data became easier for the *Forensic Auditor*. Similarly, the records strongly indicate that *Noticee no. 6* had created all possible hindrances in collection of data by Pipara in relation with FDSL. The same has been mentioned at various places in FAR. Under the circumstances, I find no merit in the above contention raised by some *Noticees* that the FAR being incomplete should not be relied upon. My aforesaid observation further finds strength from the two Orders dated February 24, 2021 and April 22, 2022 passed the Adjudicating Officer of SEBI imposing monetary penalties of INR 5,00,000 in each of those two orders, on Mr. Ashish Pandey, the company secretary and CFO of FDSL for his failure to provide the necessary information to Pipara for the purpose of present forensic audit.

70. At the same time, it is noted that the *Forensic Auditor* had received the required data with respect to RIL though there were certain hindrances created by FDSL in providing its own data. Notwithstanding the aforesaid constraints under which the *Forensic Auditor* did its job, such hindrance and difficulties faced by the *Forensic Auditor* cannot be allowed to be construed that the *Forensic Audit Report* is based on incomplete data and therefore, not based on cogent and relevant materials. I note from the FAR that the Audit was completed by the *Forensic Auditor* despite non-cooperation of certain entities. Similarly, I also note from the Investigation Report that the investigation was completed by the 'Investigating Officer' on the

basis of such material collected by *Forensic Auditor* during the course of forensic audit as well as the material collected by SEBI during various stages of investigation. After the conclusion of investigation, the Investigation Report was also duly approved by the Competent Authority in terms of provisions of law. Therefore, the assertion of the *Noticees* that investigation remained incomplete lacks any basis and is certainly without any merit. I find it pertinent to mention here that the task given to *Forensic Auditor* was a time-bound task wherein it had to collect the facts and evidences and provide its analysis in form of a report within a reasonable period of time notwithstanding the challenges it had confronted in collection of facts or data or other evidence due to recalcitrant attitude or non-cooperation by various entities. Once the Investigation Report of SEBI is prepared on the basis of such material collected during the forensic audit, with its findings based on analysis and observations made on the basis of whatever facts & evidences that were possible to be collected during the process, the same has to be treated as a complete report more so when the same got approved as a complete report by the Competent Authority of SEBI. In such circumstances, the question of incompleteness of *Forensic Audit Report* doesn't arise at all. The aforesaid contention is also not tenable as no material facts contrary to the findings have been brought on record by any of the *Noticees*. In any event, the above contention is not adversarial at this stage of the proceedings, rather it could have been used by the *Noticees* as one beneficial factor to them by demonstrating before me the correct facts which contradict the findings of the forensic audit so as to expose the incompleteness of the report to my satisfaction, but nothing of this sort has been placed before me by any of the *Noticees* hence, I don't find at any point of time that the *Noticees* were able to refute any of the findings of forensic audit on the basis of insufficiency of evidences.

71. Further, it is trite law that one should approach a court with clean hands. In the instant case, FDSL and its management including *Noticee no. 6* first did not co-

operate with the *Forensic Auditor* appointed by SEBI and caused delay in the conclusion of forensic audit as well as the investigation by SEBI. Despite their non-co-operation, when subsequent to the completion of investigation proceedings, an SCN was issued to them causing the initiation of the present proceedings, the same *Noticee* has now raised a grievance of incomplete forensic audit which is a specious and misleading claim sans any merit. Considering the above and the poor conduct of the *Noticee no. 6* especially in his failure to cooperate with the forensic audit process as discussed above, in my view at least *Noticee no. 6* lacks any *locus standi* and credibility to question the outcome of the investigation. In any case, the fate of the present proceedings will be decided only after considering the materials and evidences that are before me either in the body of SCN or as annexures to the SCN or as annexure to the replies filed by the *Noticees* in rebuttal to the allegations made in the SCN besides all other relevant attending circumstantial evidences. Therefore, raising an issue about incomplete forensic audit at this stage, is meaningless, irrelevant and is of no consequence.

72. I also find it relevant to mention here that any audit exercise, including a forensic audit, is always carried out based on testing of sample data as it is not possible to conduct forensically review of each and every transaction done during the whole period, which is 6 years long in present case. Therefore, any auditor for that matter would use only certain data based on his professional judgment, wherein he would also take helps of guidelines issued by ICAI in selecting the data and transactions to be so reviewed. It is not the case of any of the *Noticees* that the forensic audit was conducted without following the guidelines of ICAI. The only grievance of some of the *Noticees* is that the *Forensic Audit Report* was prejudicial to them. However, as I noted earlier, based on the independent examination/ investigation of facts and evidences so gathered during the forensic audit exercise, a view was taken during SEBI's investigation that there exist sufficient materials and evidences which *prima facie* reveal the commission of alleged violations by the

Noticees and therefore, it was considered sufficient to proceed against the *Noticees*, by way of issuance of present SCN to them. Further, I also note that the authors of the *Forensic Audit Report* have confronted a six hours long cross-examination by all the *Noticees* (except for *Noticees no. 2* and *5* as discussed above) and none of the *Noticees* has been able to establish that these authors of *Forensic Audit Report* were harbouring any prejudice against them so much so that they went on making baseless findings against them in their report. Therefore, it is observed that none of the *Noticees* has been successful in dispelling the *prima facie* observations made in the SCN issued in the matter which make me now to strongly view that, the contention raised by the *Noticees* especially by *Noticee no. 6* about the adequacy of the *Forensic Audit Report* is not borne out of any facts or evidences but from the surmises of these *Noticees* which cannot be accepted for any further consideration.

73. *Noticees no. 3* and *6* have contended that certain other entities have not been implicated in the *Forensic Audit Report* and the role of management appointed after April 01, 2016 as well as the role of the parent company of RIL were not examined by the *Forensic Auditor*. In respect of the above, it is observed that the role of parent company was examined by the *Forensic Auditor* and its findings are recorded at Chapter 21 of *Forensic Audit Report*. Further, roles of certain other entities referred to by the *Noticees* have also been examined and the findings with respect to them have been noted in the *Forensic Audit Report*. In fact, I find that *Noticee no. 5*, who was made MD & CEO of the *Company* after April 01, 2016 has been implicated in both *Forensic Audit Report* as well as in the Investigation Report of SEBI.

74. In addition to the above, in my view, such an argument advanced by the *Noticees* does not serve their purpose. It is common knowledge that in quasi-judicial proceedings, the adjudicator is bound within the four walls of the show cause notice available before him. In the instant case, after examining the role of other entities, if SEBI has found that there is no case to proceed against some other

entities, the same cannot be used as a reason or ground for making the present proceedings infructuous or for demanding exonerations of the *Noticees* from the charges as alleged in the SCN. The Hon'ble Supreme Court had the occasion to deal with the similar argument recently in the matter of *The State of Uttar Pradesh & Ors. vs. Rajit Singh (Civil Appeal nos. 2049-2050 of 2022)* wherein a Junior Engineer was exonerated by both the lower tribunal and the High Court from the allegation of financial irregularity on the ground that other officers involved in the incident were exonerated and/or no action was taken against them. Such ground of exoneration was rejected by the Hon'ble Supreme Court in its judgment dated March 22, 2022 after making the following observations:

"*7. Now, so far as the quashing and setting aside the order of punishment imposed by the Disciplinary Authority applying the Doctrine of Equality on the ground that other officers involved in the incident have been exonerated and/or no action has been taken against them, is concerned, we are of the firm view that on the aforesaid ground, the order of punishment could not have been set aside by the Tribunal and the High court. The Doctrine of Equality ought not to have been applied when the Enquiry Officer and the Disciplinary Authority held the charges proved against the delinquent officer. The role of the each individual officer even with respect to the same misconduct is required to be considered in light of their duties of office. Even otherwise, merely because some other officers involved in the incident are exonerated and/or no action is taken against other officers cannot be a ground to set aside the order of punishment when the charges against the individual concerned - delinquent officer are held to be proved in a departmental enquiry.* ***There cannot be any claim of negative equality in such cases.***" (emphasis supplied)

Considering the aforesaid factual findings made by the *Forensic Auditor* as well as by SEBI during its Investigation exercise, based on which, after examining the and considering the role of each of the entities, including the *Noticees* herein and depending upon their respective attendant facts & circumstances, SEBI has

found it sufficient to initiate proceedings against the *Noticees*. Be that as it may, the submission that the instant proceedings should be disposed of by exonerating the *Noticees* merely on the ground that some of the entities have not been examined or proceeded against, does not hold good anymore as the such a contention has to be put to rest in the light of above findings of the Hon'ble Supreme Court of India. In this respect, it is also pertinent to record that the *Noticees* have not brought before me any specific name of any individual or entity with supporting evidence to suggest his/its involvement in the scheme of accounting fraud as alleged in the SCN against the *Noticees* issued in the matter. It is expected of the *Noticees* to come out with their rebuttal and explanations in response to the allegations made in the SCN by putting forth their set of facts and evidences contrary to the facts & evidences, based on which allegations have been made against them, independently without bringing in such pleas about some other entities having been left out etc. Such a plea taken by the *Noticees* alleging exclusion of certain entities in the SCN in any case will not diminish the gravity of the charges made against them in the SCN nor can it erase the facts & evidences based on which such charges have been made. Considering the foregoing, I reject this contention of the *Noticees in limine* and do not find it necessary to further deal with this contention.

75. It is also noted that *Noticee no. 3* has thrown light upon the fact that the transactions entered into by the *Company* after March 2016 have not been mentioned in the *Forensic Audit Report*. In specific, the *Noticee no. 3* has mentioned one transaction wherein an order to the extent of INR 1000 Crores was given to FDSL. However, I note from page 6 of *Forensic Audit Report* that the Report has examined and taken into account all transactions of the *Company* from FY 2012-13 to FY 2017-18. Therefore, there should not be any doubt or confusion that the *Forensic Auditor* has examined the abovementioned specific transaction of RIL with FDSL as well.

76. Further, it is important to understand the type of fraudulent scheme alleged to have been devised in this case. It is not the case of SEBI that all the transactions between FDSL and RIL were part of a fraudulent scheme. It is not the allegation that the funds have been siphoned off to a large extent to related parties. The allegations in the present matter are that, in concert with *Noticee no. 6*, *Noticees no. 1 to 5* had artificially created fraudulent transactions with related parties to inflate the sales and revenues of FDSL and RIL, as a consequence of which, the revenue of the *Company* was also inflated artificially thereby enabling them to demonstrate to the public at large that they were achieving faster growth in their revenue and profit targets and resultantly were enjoying the inorganic growth in their salaries as well. Under the circumstances, the SCN has primarily highlighted analysis of those transactions between the *Company* and FDSL and the entities connected with the *Noticee no. 6*, which were noticed to be fictitious and not having support of the documentary evidence to be held as genuine. The SCN at no place alleges that all the transactions of RIL with FDSL were fraudulent.

77. In the light of the above para, I find it necessary to go through the aforementioned order worth INR 1000 Crores awarded by RIL to FDSL. I find from the DRHP of FDSL filed with National Stock Exchange of India Limited (hereinafter referred to as '**NSE**') that there was a Memorandum of Understanding between RIL and FDSL wherein they had together agreed to bid for and fulfil certain government offices tenders.

78. In this context, it has been admitted by *Noticees no. 3 and 4* that they had gone for a visit to Shirdi with *Noticee no. 6* and tickets for the above visit were booked by *Noticee no. 6*. The purpose of the said trip was explained by *Noticee no. 3* in his written submission and also by *Noticees no. 3* and *4* in their oral arguments. As per their submissions, RIL had secured a tender worth of INR 1300 Crores from Department of Post, Government of India, which happened to be the largest contract in the history of RIL and they had gone to Shirdi to celebrate the said

business deal. It therefore appears that the order worth INR 1000 Crores received by FDSL from RIL was given by RIL in fulfilment of the said order only as per their MOU. As the said order given to FDSL was in respect of a valid order awarded by a Ministry of Central Govt. to RIL, I find no reason for *Forensic Auditor* to include the said transaction in its Report, as the same was not found to be a fictitious transaction by the *Forensic Auditor*.

79. Before proceeding further to deal with the allegations as recorded against the *Noticees* in the SCN on their merit, I find it appropriate that for the purpose of easy reference, relevant provisions of law which have allegedly been contravened as per the SCN are reproduced hereunder:

The SEBI Act, 1992

Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.

12A. *No person shall directly or indirectly—*

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;

(c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(d) ……..

(e) ……...

(f) acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognised stock exchange in contravention of the regulations made under this Act.

The PFUTP Regulations, 2003

3. *Prohibition of certain dealings in securities*

"No person shall directly or indirectly –

(a) buy, sell or otherwise deal in the securities in a fraudulent manner;

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;

(c) employ any device, scheme or artifice to defraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under."

4. *Prohibition of manipulative, fraudulent and unfair trade practices*

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities.

(2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—

(a) indulging in an act which creates false or misleading appearance of trading in the securities market;

(f) publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities;

(g) entering into a transaction in securities without intention of performing it or without intention of change of ownership of such security;

(r) planting false or misleading news which may induce sale or purchase of securities;"

Consideration and findings:

80. The major allegations in the SCN can be divided under the following headings for better appreciation of allegations made in the SCN: -

i. Manipulation of Books of Accounts and Round Tripping

ii. RITS Program

iii. Vendor Financing and Letter of Credit to FDSL

iv. Write off

v. Transactions related to UID Kits

vi. Early recognition of certain sales orders in Tally as compared to MeraCRM

vii. Connections and roles of Various *Noticees*

viii. Fraud in the records of FDSL

ix. Role of the Auditor

81. I note from the records that certain entities enjoying connection with *Noticee no. 6* (Amalendu Mukherjee) were allegedly used to create fictitious sale entries to inflate the revenue and profits of both RIL as well as FDSL. Since there are numerous such entities which have been alleged connected with *Noticee no. 6* and which have transacted with RIL and/or FDSL or with their other connected entities, they are being discussed at relevant places in this order so as to connect them with the allegations in the present matter.

82. Before proceeding further, I find it necessary here to observe that the nature of allegations against all the *Noticees* are such that they are tied with each other through a common thread that binds them to a common set of charges pertaining to inflating the books of accounts of the *Company* by executing a scheme or artifice involving accounting frauds committed through various illegal means including round tripping of funds, generating bogus invoices or entering into artificial commercial transactions only to aid and abet the perpetuation of the said scheme. By doing so, *Noticees no. 1 to 6* have painted a make belief picture of the books of accounts of the *Company* depicting the growth of the *Company* at an unbelievably fast pace so as to apparently induce the investors to buy and hold shares of the

Company only to be left cheated subsequently when the fraud of these *Noticees* came to light and quite expectedly the market price of the scrip of the *Company* witnessed a huge decline and the *Company* landed up in CIRP causing humongous loss of investors capital thereby eroding confidence of investors in the securities market.

83. At the same time, I may point out that the allegations in this proceedings are not of the nature of siphoning of the funds of the *Company* to any other account to benefit any one of the *Noticees* nor does the SCN talks about funds movement to accounts of any of the *Noticees* from the *Company*'s account to show unjust enrichment of any of the *Noticees* hence the remit of this proceedings is confined to dwell upon the allegations of fraudulent transactions, bogus invoicing, accounts manipulations, inflated books of accounts etc. as have been labelled against the *Noticees* in the SCN.

84. In the aforesaid context, I now proceed to deal with the allegations against the *Noticees* in the present proceedings based on the facts and evidences available on records as well as the submissions made and arguments advanced by the *Noticees* before me:-

Manipulation of Books of Accounts and Round Tripping

85. During the course of fact findings, it was noticed that *Noticee no. 2* (Tetsuya Takano) came to India as the MD and CEO of RIL and unveiled his plan of tripling the revenue of RIL in 3 years' timeframe, as evidenced from an email dated July 09, 2012, attached as Annexure 90 of FAR. By that time, RIL used to mainly trade in Multifunctional Printers and other hardware in India which was the core business of Ricoh Group all over the world.

86. Just prior to that, RIL had acquired a company named Momentum Infocare Private Limited and had started its own IT Services Business in the Indian Market

from Financial Year 2010-11. Over the period of time till Financial Year 2015-16, it is noticed that the IT Services Business of RIL grew exponentially giving tremendous impetus to the balance sheet of the *Company*. The exponential growth of revenue can be aptly observed in the following table-

Table 1: Revenue growth of RIL

(INR in Crores)

Financial Year Ended	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Revenue from Operations	242	257	297	432	633	1049	1638	998	1217	681
Growth (%)	-	6%	15%	46%	47%	66%	56%	-40%	14%	-42%

During the same time, the profit also grew at corresponding fast pace as can be seen from the table below:

Table 2: Profit growth of RIL during the Investigation Period

(INR in Crores)

Financial Year Ended	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Net Profit after Tax	-1.32	17.23	33.90	-1118	-326	-894

The above Tables show that the *Company* was being projected as a fast growing company with an exceptionally high rate of growth both in terms of revenue and profit, until the allegation of fraudulent inflation of entries in its books of accounts first broke out from the limited audit conducted by BSR for the quarter and half year ended September 2015, as discussed in the pre-paragraphs of this order.

87. As mentioned above, this story of exponential growth of the *Company* got a jolt in Financial Year 2015-16 when BSR found certain transactions to be suspicious and without backing of proper documentary trails hence, recommended for further audit of the business of the *Company* with respect to those transactions.

Subsequently, as the things unfolded pursuant to the verifications carried out during the audit by PwC as well as the forensic audit by Pipara and on the basis of information available in the books of accounts, RIL had to come out with a public disclosure of loss of INR 1123 Crores on July 19, 2016 after its own Board recognised various wrongdoings committed in its accounts during all those previous financial years which fall under the scope of examination in the present matter.

88. Parallel to the aforesaid developments at RIL, *Noticee no. 6*, who had set up FDSL and was its promoter and Managing Director, was engaged in substantial business transactions involving huge amounts of deals with the *Company* (RIL). *Noticee no. 6* remained the promoter and Managing Director of FDSL since its incorporation in June 2011 till his removal from FDSL as part of CIRP proceedings by NCLT. As per the shareholding pattern uploaded on MCA website, he was the majority owner of FDSL with a 73.25% shareholding. Other shareholders of FDSL included his wife Ms. Namita Mukherjee (0.18%) and the rest was held by public (26.57%) as on March 31, 2017.

89. As per material available on record, FDSL's operating turnover grew from INR 17 Crore in Financial Year 2012-13 to INR 1,402 Crore in Financial Year 2015-16, due to the high value commercial deals bagged by it from RIL over those three years and its growth trajectory over those three years from F.Y. 2013-14 to F.Y. 2015-16 is presented in the table below:

Table 3: Revenue growth of FDSL during the Investigation Period

(INR in Crores)

Financial Year Ended	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Revenue from Operations	17	136	651	1402	1491	528
Growth (%)	-	800%	458%	215%	6%	-65%

It becomes a bit onerous task to comprehend the afore-mentioned rapid growth rate displayed by FDSL when one examines the disclosures made by FDSL in its Draft Red Herring Prospectus (in short '**DRHP**') dated December 17, 2015 filed with NSE to get listed on its NSE-Emerge platform in which it has stated that, out of the total employee strength of 695, it had a sales team as small as 10 employees, as mentioned by it at page no. 160 of its DRHP. At the same time, FDSL was not having any inventory at the beginning of any financial year covered in the said DRHP, whereas FDSL was seen to be continuously buying and selling computer related hardware to/from RIL and other entities because of which it registered such astronomical rise in its turnover within such a small period as may be observed from the above table. In such a circumstance, it is inconceivable as to how a company could have zero inventory at the start of every financial year and yet continuously trades in high value goods throughout the year without keeping any stock in which it trades. The data presented in the above table 3 also make it an interesting case to notice that a company, which grew at breakneck speed and witnessed its peak operating revenue of INR 1491 crore in FY 2016-17 that drastically declined in the next financial year but still remained at INR 528 Crores as on the Financial Year ending March 31, 2018, went into CIRP as quickly as it had grown and as early as in 2019 and finally was sold in the said resolution process wherein the existing shareholders of the said company got nothing for their shares. The fact that FDSL was a listed company and had substantial public shareholding, it had a big responsibility to ensure that it was carrying out its business in due care, diligence, in a transparent and honest manner and in compliance with law including the provisions related to securities law and ought to have taken prompt remedial action to arrest the wrongdoings that were going on in its dubious business transactions, as has been pointed out in the SCN, upon noticing that such transactions or acts were in breach of provisions governing the securities market.

90. Further, a little probing into the reason as to why FDSL went into CIRP almost simultaneously with RIL leads me to a comparison of total yearly purchases made by RIL *vis-à-vis* its corresponding purchases from FDSL, as observed in the *Forensic Audit Report*, which is reproduced in the below table:

Table 4: Comparison of total purchases of RIL with its purchases from FDSL

(INR in Crores)

Financial Year Ended	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Total Purchases	516	788	1240	914	882	565	4905
Purchases from FDSL	9	78	448	673	303	52	1563
Purchases from FDSL(%)	1.75%	9.90%	36.12%	73.63%	34.35%	9.20%	32%

The above table shows that the purchases of RIL from FDSL increased by giant steps so much so that in the Financial Year ended March 2016 more than 73% of purchases of RIL were being made only from FDSL. Similarly, a comparison of the total yearly business revenue of FDSL with the yearly revenue generated from its business dealings with RIL shows that till Financial Year 2014-15, more than 50% of revenue of FDSL was coming from its sales to RIL. This clearly shows that both RIL and FDSL were playing an integral role in each other's business dealings and were mutually generating high business turnover and high profit figures for each other's business which were getting reflected in each other's books of accounts and were being disclosed to the public through the stock exchanges. Now, how far the aforesaid business turnovers and figures of profit were credible and substantiated by actual business deals and genuine invoices becomes a questionable proposition when one comes across the red flag found at page 100 in the DRHP of FDSL wherein it has proudly claimed to have acquired such an exponential growth in sales with as small a sales team as comprising 10 employees only in a company having 695 employees.

91. I find it relevant to recall here that FDSL, a company incorporated in June 2011, got listed on NSE Emerge Platform in Financial Year 2015-16. The data pertaining to the rising operating revenues and profits as presented in the tables in the foregoing paragraphs strongly suggest the importance of the huge volumes of revenue generated by FDSL only from its dealings with RIL which had a huge impact on its financial results and unquestionably became an instrumental factor in ensuring the listing of the scrip of FDSL on NSE Emerge platform, thereby facilitating *Noticee no. 6* to raise capital from public shareholders by issuing fresh shares of FDSL in the market.

92. It appears from the FAR that most of the purchases made by RIL from FDSL comprised of standard computer hardware equipment like laptops, desktops, scanners and other similar items which perhaps could have been purchased directly from original equipment manufacturers or their authorized national distributors by way of bulk deals or otherwise. There is no evidence to suggest that any competitive bids were invited by RIL from the market before deciding to procure those equipment from FDSL. Similarly, there is no evidence to suggest that FDSL was the authorised dealer of any original equipment manufacturing companies or whether FDSL offered any substantive discount to RIL for such bulk procurement, which the original equipment manufacturers normally provide to such big clienteles whose purchases ran into hundreds of crores of rupees. In fact, neither the *Noticees no. 1 to 5* nor *Noticee no. 6* has ever attempted to explain as to why there was such a heavy concentration of purchases deals between the two companies. It is apparent from records that FDSL was not a manufacturer of computers or any other equipment nor did it keep any opening stock of inventory in its stock as pointed out earlier. As FDSL was supplying computer related goods to RIL, it is a matter of trading practice that FDSL as a trader, would be buying those computers and other hardware equipment from original equipment manufacturers or its distributors and thereafter sold the same to RIL

at higher cost after retaining its margins/commissions. I find that there is nothing on record to indicate as to under what circumstances FDSL and RIL decided to enter into a business arrangement of such magnitude in a manner that within a short span of time, each of them became a major contributor to other's operating revenue. As noticed above, there is nothing in records and nothing has been submitted by the *Noticees* in the course of present proceedings to justify the massive business engagement RIL had with FDSL. There is nothing on record as well to draw my attention to suggest that RIL had undertaken due selection process by inviting competitive bids before it decided to buy software and other material from FDSL so as to explain that the price offered by the FDSL was competitive. It is surprising that no such exercise was ever undertaken and the management of RIL continued to purchase these items from FDSL rather than making any effort to invite competitive bids either formally or informally as may be convenient to them, before taking a commercially prudent decision on the right vendor whose price and product were best suited to the interest of RIL and its shareholders. A complete absence of the aforesaid due diligence on the part of the management of RIL as indicated above shows that the dealings of RIL with FDSL had something more than what meets the eye of a common person and it was way beyond a mere business transaction between the two corporate entities entered into in due course of commerce and business.

93. As noted above, the business of RIL continued to grow manifold particularly during the period 2013- 16 and a major part of it was attributed to its commercial dealings with FDSL and accordingly, the investors were given the impression through the disclosure that the *Company* was doing very good holding out a promise for a bright future. However, the hard reality behind such exponential business growth of these two companies suddenly got exposed when the new Statutory Auditor of the *Company* viz. BSR raised serious doubts over certain business transactions of RIL, which were then further audited by PwC. As an

outcome of such audit, the *Company* immediately recognised and declared that the financial results for FY 2015-16 didn't show the true financial affairs of the *Company*. Consequently, after taking into account those business transactions, the *Company* had to declare a loss of INR 1123 Crores in its results for FY 2015-16 which was in line with the findings of PwC after examination of books of account of the *Company*.

94. It is also noticed that, based on the subsequent verification carried out during the forensic audit and on the basis of information available in the books of accounts, certain paper/fictitious transactions were written off by RIL as Bad Debts. The details of some of the transactions which were suspected to be fictitious and were written off are illustrated as under: -

Table 5: Details of write off by RIL during FY 2016-17

(INR in Crores)

Sr No	Name of the Entity	Sale Invoice Date	Sales Invoice No.	Sales Amount (Rs.)	Bad Debts Amount (Rs.)
1	Media Junction	03.01.2015	DEL/SER/0838/14-15	5,05,62,000	90,00,000
2	New Code IT Services Pvt. Ltd	03.01.2015	DEL/SER/0839/14-15	14,34,27,540	59,27,540
3	Nike Sales Corporation	30.09.2015	DEL/RI/0672/15-16	10,54,13,700	20,97,785
4	Quantum Ltd	30.11.2015	DEL/TI/0105/15-16	25,02,67,500	16,89,67,500
5	Redhex	Multiple Invoices			72,30,01,165
6	Rudra Enterprises	05.08.2015	DEL/RI/0470/15-16	16,12,18,529	8,32,32,354
7	Synaptic Systems Pvt Ltd	24.12.2015	DEL/SER/0453/15-16	7,44,24,988	7,44,24,988
8	Vedavaag Systems Ltd	18.12.2014	DEL/TI/0045/14-15	46,41,40,968	58,37,80,436
		31.08.2013	DEL/RI/0499/13-14	14,36,47,224	
9	Videocon Industries Ltd	20.01.2016	DEL/TI/0116/15-16	10,50,30,699	6,55,54,707
Total					**171,59,86,475**

95. In this regard, I find from the materials available on record that the entities mentioned at S. No. 2 (New Code IT Services Pvt. Ltd.), S. No. 3 (Nike Sales Corporation), S. No. 5 (Redhex IT Solutions Private Limited), S. No. 6 (Rudra Enterprises), S. No. 7 (Synaptic Systems Pvt. Ltd.), and at S. No. 8 (Vedavaag

Systems Ltd.) in the aforementioned Table 5 were allegedly connected with *Noticee no. 6*, directly or indirectly. At the same time, a number of other entities were also found to be connected with *Noticee no. 6* in one way or the other. The connection of these entities with *Noticee no. 6* have been highlighted herein below paragraphs.

96. **New Code IT Services Private Limited**- I find from the MCA database that New Code IT Services Private Limited (hereinafter referred to as '**New Code**') was incorporated on August 13, 2008. The FAR records show that *Noticee no. 6* and his wife Namita Mukherjee were directors of New Code from March 01, 2013 to August 08, 2015 and were also having 100% shareholding in the said company till October 20, 2014 which they later on transferred to Ashish Pandey and Jitendra Kumar Sharma. I also note that the above facts have not been disputed by *Noticee no. 6* in his replies before me.

97. It is further noticed that Jitendra Kumar Sharma is shown as a contact person in the invoice generated by RIL for sales shown to Redhex, another entity connected with *Noticee no. 6*. The said entity Redhex and its connection with *Noticee no. 6* has been examined in detail at later paragraphs in this order. Mr. Jitendra Kumar Sharma was also seen appearing as a witness on behalf of the same entity viz. Redhex in RITS Partner agreement signed by Redhex with RIL, details of which would be discussed in the later part of this order. This clearly shows that Jitendra Kumar Sharma was well connected with *Noticee no. 6*.

98. Similar to Jitendra Kumar Sharma, Ashish Kumar Pandey, another shareholder of New Code, was the company secretary and CFO of FDSL during 2017-18. It has already been discussed above in para 68 onwards as to how FDSL had obstructed and not co-operated with the *Forensic Auditor* in carrying out their fact finding exercise and it was Ashish Kumar Pandey who was the person dealing with the *Forensic Auditor* on behalf of FDSL. He had obstructed the forensic audit

by not making the books of accounts of FDSL available to the *Forensic Auditor* and for such act of above non-cooperation, proceedings have been initiated, which ended in imposing monetary penalties on him by way of two separate Adjudication Orders. I also note that the above mentioned orders passed by the Adjudicating Officer, imposing monetary penalty have not been set aside till date.

99. It is also noteworthy to mention here that the Statutory Audit of both FDSL and New Code was being done by the same firm namely M/s Sain Kanwar & Associates even after *Noticee no. 6* apparently left New Code. The DRHP of FDSL was approved by its Board of Directors on August 10, 2015 i.e. just two days after *Noticee no. 6* and his wife resigned from New Code. It shows that *Noticee no. 6* and his wife, just to create a smoke screen of having no relationship with New Code, resigned in a manner to avoid disclosing New Code as their company in the DRHP of FDSL. All these facts and connection of *Noticee no. 6* with Jitendra Kumar Sharma (as shareholder of New Code and due to his connection with Redhex) and Ashish Pandey (as former employee of FDSL and shareholder of New Code), clearly displays existence of a close connection amongst *Noticee no. 6*, FDSL and New Code.

100. I also note from the balance sheet of New Code that there has been a phenomenal jump in its Reserves and Surplus, Trade payables, other current liabilities, long term loans and advances, trade receivables, cash and cash equivalents, short term loans and advances etc. as on March 31, 2015, as compared to the same on March 31, 2014. Similarly, the revenues from operation of New Code rose from INR 9.71 lakh in FY 2013-14 to INR 58.11 Crores in FY 2014-15 and its profits for FY 2014-15 rose to INR 2.63 Crores from INR 1.04 lakh in FY 2013-14, all due to its apparently fictitious transactions with RIL that was first red flagged by the audit carried out by BSR as well.

101. A bare analysis of subsequent balance sheets of New Code also raises numerous

red flags in its books of accounts but surprisingly, the auditor of New Code has neither raised any objection or adverse remarks in the audited accounts of this company. For instance, New Code had shown expenses on services for FY 2015-16 at INR 28.98 Crores out of which INR 11.88 Crores was shown as advance to suppliers which means, New Code had given around 41% of total expenditure as advance to suppliers. Thus, a large part of its expenditure was merely advances and did not represent any actual payment for any products/services received.

102. I find from the *Interim Order* that the email backup of RIL employees through which they had shared the details of transactions of RIL with New Code to *Noticee no. 6*, showed that these employees had referred to New Code as a part of FDSL group. Further, the domain (newcode.co.in) was registered in the name of *Noticee no. 6* and was shared with the new shareholders of New Code as late as on January 02, 2016 even though the shareholding of New Code is claimed to have been transferred to Mr. Jitendra Sharma and Mr. Ashish Pandey as early as in October 2014. In this regard, *Noticee no. 6* had stated that he had transferred the login id and password to the new management when New Code was transferred, however contrary to such claim, the said domain was purchased for the first time in January, 2016 itself, before which no domain ever existed that could have been transferred to the new management, as claimed by the *Noticee no. 6*. Under the circumstances, it remains unexplained as to why the new management of New Code didn't purchase the new domain on their own and *Noticee no. 6* had to purchase it and transfer the same to the new management rendering thereby the entire claim of transferring the shareholding of New Code to Mr. Jitendra Sharma and Mr. Ashish Pandey in October 2014 to be specious and contrived.

103. It is also observed in the *Interim Order* that the domain ID of New Code (newcode.co.in) was registered in the name of *Noticee no. 6* on January 2, 2016 and the email ID of New Code was shared with Ms. Smriti Pandey of RIL on the same day. I find that around the same time, BSR had raised suspicion over

transactions of RIL with New Code as the same were without the backing of any documentary evidence. In the absence of any explanation to the contrary, the only logical explanation behind creation of a fresh new domain ID of New Code and sharing of its email ID with RIL around the same time when BSR audit commenced, can be stated to portray New Code before BSR as an entity existing in reality.

104. Further, it is observed from email dated January 08, 2016 of Bibek Chowdhury from RIL that he had sought comments of *Noticee no. 6* regarding two contracts granted by FDSL to RIL which were further awarded by RIL to New Code in the month of June 2015, despite the fact that FDSL and New Code were observed and considered to be related parties till that time by virtue of common directorship of *Noticee no. 6* and the said contracts could have directly granted by FDSL to New Code. However, in his reply, *Noticee no. 6* had denied that FDSL and New Code were related parties and submitted that New Code is an independent entity as its ownership was transferred to new management in October 2014 itself and he had no control over selection of New Code as a subcontractor. However, contrary to the above claim of *Noticee no. 6*, keeping in view the given facts as discussed in above paragraphs about *Noticee no. 6* creating a new domain ID and sharing the email ID of New Code with RIL as late as in January 2016, I find no hesitation to hold that *Noticee no. 6* was practically exercising control over New Code at least till January 02, 2016 through his employees Mr. Ashish Pandey and Mr. Jitendra Sharma, whom he had apparently transferred the ownership of New Code only on paper. Therefore, the submission of *Noticee no. 6* that FDSL and New Code were independent entities at that point of time is unacceptable, and contrary to the factual evidence on hand and *Noticee no. 6* has made such claims by taking the alibi of paper transfer of shareholding of New Code to his employees only to camouflage its true relation with *Noticee no. 6* so as to mislead the new auditors of RIL viz. BSR.

105. The aforesaid observations further get reinforced by the fact that both New Code and FDSL had a common entity as their Auditor and neither New Code nor FDSL and nor even RIL could provide any supporting documents or vouchers for the transactions RIL and FDSL had with New Code. At the same time, it cannot be ignored that *Forensic Auditor* could not locate New Code at its address available in the records of RIL during physical inspection, nor any of the *Noticees* nor even *Noticee no. 6* could provide any explanation for New Code not being available on the address available in the records of RIL despite the fact that *Noticee no. 6* had provided a fresh domain Id and email address to RIL in respect of New Code as late as in January,2016 apparently to camouflage the fictitious existence of New Code in the books of RIL. The aforesaid undisputed facts suggest that New Code was only one of those shell entities connected with and in the control of *Noticee no. 6* which were used for creating fictitious paper invoices in their names mutually by both the management of RIL and FDSL to inflate the revenue of both FDSL and RIL by frequently round tripping the funds among these three entities viz. FDSL, RIL and New Code in a fraudulent manner which has also been demonstrated in the aforementioned email of Bibek Chowdhury.

106. All these abovementioned evidences and connections as sufficient to establish that New code was being used by RIL knowingly to carry out bogus and non-genuine transaction with FDSL or with entities having connection with the *Noticee no. 6* in one way or the other, and in the absence of any plausible reason or explanation to rebut this inference, I find no reason that can explain the sudden meteoric rise in the turnover and profit of RIL which was rather in all probabilities, after seeing the findings of the FAR about the fictitious transactions entered into by RIL some of which have been illustrated above, were deliberately inflated for reasons, best known to the *Noticees no. 1 to 5*.

107. **Vedavaag Systems Limited**- Vedavaag Systems Limited (earlier known as 'Sark Systems India Limited' and hereinafter referred to as '**Vedavaag**') is a company

which was earlier listed on Bangalore Stock Exchange and Hyderabad Stock Exchange. Subsequently it got listed on BSE in 2009.

108. I note that Vedavaag was having business relations with RIL. Given the fact that both Vedavaag and FDSL appear to have been dealing in UID kits deployment and were also RITS partner, they can be stated to be engaged in the same business and thus, ideally should have been competitor of each other at the relevant point of time. However, as I rummage through the materials on record I find that there seems to be a strong relationship that existed between *Noticee no. 6* and Vedavaag notwithstanding the fact that both the entities were operating in a seemingly competitive business with each other having business deal with the same client (RIL) on same/similar products. Some of the evidences in support of their close connection are observed to be as following:

    108.1. The materials on record clearly suggest that *Noticee no. 6* was an employee of Vedavaag prior to the incorporation of FDSL.

    108.2. Signing of RITS program agreement between Vedavaag and RIL was witnessed by *Noticee no. 6*.

    108.3. I find the *Interim Order* mentions that some of the invoices of Vedavaag were being handled by *Noticee no. 6* and one of the addresses of Vedavaag, which was sent by *Noticee no. 6* to Smriti Pandey was that of FDSL.

    108.4. While Vedavaag was a vendor and customer to RIL, its name also appears in the statement of short term loans & advances of FDSL at page 169 of its DRHP wherein FDSL has disclosed having advanced a loan of INR 23.85 Crores to Vedavaag that was outstanding in the name of Vedavaag as on the date of filing of DRHP to NSE.

    The preponderant factors thrown by the afore cited close business and personal nexus between Vedavaag and the *Noticee no. 6* can safely lead me to conclude that *Noticee no. 6* had an active role in arranging the business transactions between RIL

and Vedavaag and that he was having direct access to the Invoices of Vedavaag, which implies that despite being in a competitive business with Vedavaag dealing with same products/services sold by RIL, for reasons best known to *Noticee no. 6*, he played an instrumental role in roping in Vedavaag as a business partner with RIL thereby making it obvious that both RIL and *Noticee no. 6* pursued a common objective by having Vedavaag as a customer of RIL.

109. The above details, when seen in the light of the fact that receivables to the tune of INR 58,37,80,436 from Vedavaag were written off in the books of accounts of RIL, ostensibly amplifying my above observations (regarding common objective) to suggest that the books of accounts of RIL were manipulated to show inflated/fictitious sales to Vedavaag. I note that any buyer company (for example Vedavaag in the present matter) against whose name inflated sales have been shown in the books of accounts of the seller company would only pay the actual payable amount leaving thereby a large gap in the balance sheet of the seller party under the head of sales receivables (which is RIL in the present matter). The convenient way to set-off such inflated sales receivables is to write them off at a later stage, showing them as 'difficult to recover' accounts. Under the circumstances, after considering the materials on record after perusing the explanations so far furnished in this respect, in my view, the ease with which RIL has promptly written off such a huge amount of outstanding receivables to the tune of INR 58,37,80,436 in its books without thinking even once, of enforcing its dues against Vedavaag by pursuing in a court of law or otherwise, RIL's management was very much convinced that the sales shown in the name of Vedavaag were fraudulently inflated through various bogus and non-genuine invoices and as soon as they realised that it would not be possible anymore to conceal the said false and concocted transactions, the *Company* was left with no option but to write-off all the inflated sales at one go amounting to more than 58 Crores that were outstanding as receivables from Vedavaag in RIL's books.

110. **Mr. Ashish Jindal-** The name of Mr. Ashish Jindal appears in the *Forensic Audit Report* numerous times and he is found to be in control of numerous entities including Aastha Impex, AS International, Pantail Enterprises, Jindal Infra Solutions Limited, Ankur Trading Co., Shree Balaji Impex and Jatalia Global Ventures Limited etc. Therefore, to easily appreciate his involvement in the present matter, his connection with *Noticee no. 6* and all the connected entities of *Noticee no. 6* have been dealt with together in this order. First, his connection with various entities needs to be noted from the below table:

Table 6: Connections of Ashish Jindal with certain entities

Name of entity	Details
Jindal Infra Solutions Limited	1. Ashish Jindal was the Managing Director of Jindal Infra Solutions Limited and he has admitted the same before the *Forensic Auditor*. 2. POs (purchase orders) of Jindal Infra Solutions Limited were shared with RIL by *Noticee no. 6*, upon receipt of the same from Mr. Ashish Jindal. 3. Vide email dated February 25, 2015, Ashish Jindal sent POs of Jindal Infra Solutions Limited and Ankur Trading Company to *Noticee no. 6* who then forwarded them to RIL with a copy marked to *Noticee no. 4*. 4. A close examination of the aforementioned POs of Ankur Trading Company and Jindal Infra Solutions Limited shows that they were signed by the same person. 5. While Jindal Infra Solutions Limited has appeared in the list of customers of RIL by virtue of the aforementioned transactions, it has also appeared in the list of entities to whom

	FDSL had given short term loans & advances at pages 169-170 of its DRHP indicating thereby that it was closely connected with FDSL as well.
Aastha Impex	1. POs of Aastha Impex were shared with RIL by *Noticee no. 6* upon receipt of the same from Ashish Jindal. 2. Vide email dated December 01, 2014, Smriti Pandey sent tax invoice of Aastha Impex to *Noticee no. 6*. 3. While Aastha Impex has appeared in the list of customers of RIL by virtue of the aforementioned transactions, it has also appeared in the list of entities to whom FDSL had given short term loans & advances at pages 169-170 of its DRHP indicating that it was closely connected with FDSL.
AS International	1. POs of AS International were shared with RIL by *Noticee no. 6* vide email dated October 31, 2014 upon receipt of the same from Ashish Jindal vide an even dated email. 2. Vide email dated November 05, 2014, Smriti Pandey forwarded tax invoices against the said POs to *Noticee no. 6*. 3. A closer examination of the POs of AS International available on record show that the format of 2 POs shared by it were totally different from each other. In fact, the stamp affixed on these POs of AS International were different from each other. 4. The format of PO dated May 26, 2015 vide no. NSC2605/101 from Nike sales corporation was identical with PO of AS International dated June 12, 2015 vide no. AS-1206/107. 5. The said PO of AS International dated June 12, 2015 appears

	to have been signed by Mr. Ashish Jindal himself and he is mentioned as the contact person for AS International in the records of RIL. Further, the vendor for such order (delivered on September 28, 2015) was mentioned as FDSL.
Pantail Enterprises	1. POs of Pantail Enterprises were shared with RIL by *Noticee no. 6* upon receipt of the same from Ashish Jindal. 2. Vide email dated December 01, 2014, Smriti Pandey from RIL sent tax invoice of Pantail Enterprises to *Noticee no. 6*. 3. Vide email dated February 25, 2015, Ashish Jindal sent PO of Pantail Enterprises to *Noticee no. 6* who then forwarded them to RIL with a copy marked to *Noticee no. 4*.
Ankur Trading Co.	1. POs of Ankur Trading Co. were shared with RIL by *Noticee no. 6* upon receipt of the same from Ashish Jindal. 2. Vide email dated December 01, 2014, Smriti Pandey from RIL sent tax invoice of Ankur Trading to *Noticee no. 6*. 3. Vide email dated February 25, 2015, Ashish Jindal sent POs of Jindal Infra Solutions Limited and Ankur Trading Company to *Noticee no. 6* who then forwarded it to RIL with a copy marked to *Noticee no. 4*. 4. A close examination of aforementioned POs of Ankur Trading Company and Jindal Infra Solutions Limited shows that they were signed by the same person.
Shree Balaji Impex	POs of Shree Balaji Impex were shared with RIL by *Noticee no. 6* upon receipt of the same from Ashish Jindal.

Jatalia Global Ventures Limited	1. POs of Jatalia Global Ventures Limited were shared with RIL by *Noticee no. 6* vide email dated June 30, 2015 upon receipt of the same from Ashish Jindal vide an even dated email. 2. Smriti Pandey from RIL had, vide email dated March 12, 2015, sent a tax invoice of purchase made by Jatalia Global Ventures Limited from RIL to *Noticee no. 6*. 3. Vide email dated February 26, 2015 titled as 'Final POs', Ashish Jindal forwarded POs of Jatalia Global Ventures Limited and Yogya Enterprises Limited to *Noticee no. 6*, who then forwarded the same to Ms. Smriti Pandey with a copy to *Noticee no. 4*. 4. An examination of the aforementioned POs of these two aforementioned companies showed that they are in the same format. It is also surprising that the format of this PO of Jatalia Global Ventures Limited is different from another PO of the same entity sent by Ashish Pandey vide email dated June 30, 2015.
Figurist Industries	POs of Figurist Industries were shared with RIL by *Noticee no. 6* vide email dated June 30, 2015 upon receipt of the same from Ashish Jindal vide an even dated email.
Shivam Industries	1. Vide email dated October 31, 2014, Ashish Jindal forwarded POs of Shivam Industries to *Noticee no. 6*, who then forwarded them to RIL vide an even dated email. 2. In return, vide email dated November 05, 2014, Smriti Pandey forwarded tax invoices against the said POs to *Noticee no. 6*.

	3. Thereafter, vide email dated December 01, 2014, Smriti Pandey sent another tax invoice of Shivam Industries to *Noticee no. 6*.
Nike Sales Corporation	1. Vide email dated September 03, 2015, Ashish Jindal forwarded POs of Nike Sales Corporation to *Noticee no. 6*, who then forwarded them to RIL vide an even dated email. 2. The address of Nike Sales Corporation is mentioned in its POs as Samaypur, Samaypur Badli. A simple google search shows that Samaypur is a big industrial area in Delhi having a size of 3.87 square kilometre. There is no way an address can be found out in such a large and densely populated area without any further identification mark such as plot number or building number etc. 3. The format of PO dated May 26, 2015 vide no. NSC2605/101 from Nike sales corporation was identical with PO of AS International dated June 12, 2015 vide no. AS-1206/107.

This aforesaid factual narration clearly shows that all the above mentioned entities were connected with Ashish Jindal who was supplying POs of these entities to *Noticee no. 6* who in turn, was forwarding these POs to RIL and receiving corresponding Tax invoices in their names from RIL. While Ashish Jindal has admitted being connected with Jindal Infra Solutions Limited, no details of any other entity was provided by him when the *Forensic Auditor* met and asked him.

111. Further to the aforesaid facts, it is also a fact that none of the above mentioned entities found to be connected with Ashish Jindal could be located in the addresses given in Order Sales Form or in the Tally accounting software of RIL, except for Jindal Infra Solutions Limited, which was the main entity of Ashish Jindal. In some cases, the *Forensic Auditor* found some other entities/businesses

being run at the addresses given in the records of RIL viz: a coaching institute, grocery shops etc. Further, on enquiry, the neighbours in those addresses have denied having even heard the names of these entities or about the existence of those entities operating from the addresses mentioned against the names in the records of RIL. Subsequently, when *Forensic Auditor* met Ashish Jindal at the address of Jindal Infra Solutions Limited, they were informed that AS International is a proprietorship concern of his brother, however, no evidence in support of this claim was furnished. On the contrary, I find that the POs of AS International contained the signature of Ashish Jindal only which constrains me to reject the above claim of Ashish Jindal and observe with conviction that the transactions in the name of AS International was jointly being operated by Ashish Jindal and *Noticee no. 6*. Further, Ashish Jindal despite being a single point of contact between the above mentioned entities and *Noticee no. 6* and *Noticee no. 6* himself being the single point of contact between RIL and those aforementioned entities whose POs were being shared by him with RIL, are under an obligation to provide the correct addresses and whereabouts of these entities but neither of them cooperated with either the *Forensic Auditor* or with SEBI's Investigation team and did not provide the address of any of the abovementioned entities.

112. I may also note here that the aforementioned list of entities commonly connected with Ashish Jindal as given in Table 6 above, is only an illustrative list as I find many other emails wherein Ashish Jindal has forwarded POs of certain other entities as well to RIL. However, for the sake of brevity and to avoid repetition, the detailed connections of those entities are not being elaborated in the present order.

113. After having examined the aforesaid facts and evidences available on record none of which has been rebutted by any of the *Noticees*, it emerges clearly that Ashish Jindal was operating a number of shell entities and mule accounts which were used by *Noticee no. 6* to create fake POs in their names so as to inflate the sales

books of RIL that remained as outstanding receivables in the books of RIL and as these sales were fake, the corresponding outstanding receivables ultimately had to be written off in the books of RIL. The aforesaid exposition leads to an unassailable conclusion that *Noticee no. 6* and Ashish Jindal were closely connected and had jointly facilitated RIL to book inflated and concocted sales in the books of RIL.

114. Using all the above mentioned entities operated by Ashish Jindal, *Noticee no. 6* was helping RIL to generate a number of bogus POs and corresponding Tax Invoices to inflate the revenue and profit of the *Company*. Further, in order to avoid detection and for ensuring easier operation, I find that most of the entities operated by Ashish Jindal were proprietorship concerns and not companies, since the proprietorship concerns are easier to register and they are governed by separate state laws. Unlike the data base of MCA in respect to companies which are maintained in compliance with companies laws, there is no updated common database of these proprietorship entities available anywhere making them easier to operate outside the radar of regulatory agencies. Since running a shell company is more onerous task than running a bogus proprietorship concern and it is easier to track the person behind incorporation and operation of a shell company due to continuous regulatory compliances requirement and an updated database, as the above stated facts would vehemently indicate, Mr. Ashish Jindal and *Noticee no. 6* have apparently chosen to engage a number of proprietorship concerns to carry out the objective of generating false sales figures in the names of these entities for RIL.

115. To illustrate one such instance of creation of fake sales transactions for RIL, I find from the examination of POs of AS International that *Noticee no. 6* at first provided a PO of AS International for purchase of UID kits to RIL vide email dated July 28, 2014 and then showed a sale of exactly the same UID kits from FDSL to RIL on July 31, 2014 which was then sold by RIL to AS International.

As per the findings in the *Forensic Audit Report*, the same UID kits were then leased back to RIL by AS International immediately after purchasing from RIL and again immediately thereafter, RIL further leased the same UID kits to FDSL. This aforesaid circular transactions involving a series of sales, lease back and sub-lease transactions involving the same set of UID kits that started from FDSL (sale to RIL), to RIL(sale to AS International), to AS International (lease to RIL) and again to RIL (lease to FDSL), as illustrated above, makes it a typical case of round tripping of transactions to simultaneously increase revenue of all these entities involved including RIL and FDSL and at the end of these sequential and back-to-back transactions the UID Kits never moved out of FDSL but it left a trail of fake paper transactions to inflate the revenue in the books of RIL and others as well.

116. Similarly, I notice that Jatalia Global Ventures Ltd. is found in the records of both FDSL and RIL as a purchaser of items from them. Given the fact that both FDSL and RIL were dealing in similar products and RIL was sourcing upto 74% of its products from FDSL, I find it unusual that Jatalia Global Ventures Ltd. was purchasing the same products from both these entities. At the same time, it is observed that the registration of Jatalia Global Ventures Limited with RIL as a purchasing party (debtor) was facilitated by *Noticee no. 6*. Under the circumstances and in the absence of any justifications, it is incomprehensible as to why FDSL was helping its customer to get itself registered with RIL as a customer for purchasing the same product, making RIL a direct competitor to its own business.

117. I find that FDSL had sold a number of computer related products to RIL on September 29, 2015 even though records of FDSL were showing negative inventory with respect to these items, implying that sales of products were being made by FDSL to RIL which were not actually available in its inventory as per FDSL's records. However, I find that in an attempt to justify the aforementioned sales, FDSL made purchases from Jatalia Global Ventures Ltd through 25

different invoices all dated September 30, 2015 which in the given facts and circumstances of the case, can reasonably lead to a conclusion that the subsequent purchase invoices from a connected entity was nothing but an effort to create a sham transaction to cover up the aforementioned lack of inventory in FDSL.

118. At the same time, Aastha Impex, Ankur Trading Co., Pantail Enterprises, Shree Balaji Impex were also few of the other customers of RIL who were found to have purchased items from RIL typically towards the end of the month wherein, the POs from these entities were provided by *Noticee no. 6* either on the last day of the month or in the next month i.e. many a times the POs were provided to RIL after the dates on which sales invoices were generated by RIL in the name of these entities. A case in point can be seen in the email dated September 03, 2015 of *Noticee no. 6* to Smriti Pandey with subject 'Fwd: All PO Final' indicating that he (*Noticee No.6*) had provided POs of Future Human Development Limited, Figurist Industries, Nike Sales Corporation, PS Techno Solutions Pvt. Limited and Seema Overseas, all of which were backdated to the last week of August 2015. Similarly, POs of Galaxy Traders and Vipin Enterprises were shared by *Noticee no. 6* with RIL in one email dated October 01, 2015 after he received these POs from Ashish Jindal whereas the corresponding invoices in respect of these POs of the aforementioned entities had been shown to have been raised by RIL on September 30, 2015, i.e. a day before the receipt of those POs

119. The aforementioned instances clearly establish that RIL was booking fake sales invoices in the names of the above named entities irrespective of whether such sales shown on the last date of a month were backed by POs or not, thereby inflating its financials by the end of the months to create an impression of achieving monthly targets with ease. To support these inflated invoices and sales, *Noticee no. 6* was taking help of Ashish Jindal who used to provide fake/bogus backdated POs against which fake invoices were generated by RIL to support inflated revenue and profits. I find no evidences on record or in the submissions

of any of these *Noticees* which could establish that any of these goods/items shown to have been transacted through these fake invoices were in reality ever delivered by RIL to these fictitious entities connected with Ashish Jindal, as no proof of delivery against any of these invoices (in the form of delivery challans or receipts issued by purchasers) were ever found by the *Forensic Auditor*.

120. All the above noted instances also demonstrate how along with handling the affairs of his main entity Jindal Infra Solutions Limited, Ashish Jindal was also associated with raising bogus purchase orders in the names of numerous mule proprietorship concerns and entities, some of which are mentioned above. I also find instances of a number of other entities for which POs have been forwarded by Ashish Jindal to *Noticee no. 6*, however in the interest of brevity I don't find it necessary to deal with the transactions of each and every such individual entity and its connection with Ashish Jindal and *Noticee no. 6*. It is sufficient to say that Ashish Jindal was providing POs of all these entities as and when required by *Noticee no. 6*, FDSL or RIL to inflate their sales and revenue. This finding coupled with the fact that the POs of all these entities were always shared by him with *Noticee no. 6* first, who in turn forwarded them to the concerned persons of RIL, shows that he was closely connected with *Noticee no. 6*. The aforesaid assertion gets further strengthened from the fact that Ashish Jindal and *Noticee no. 6* had travelled together in the Delhi-Dubai-Mauritius trip and in another 6night/7 days long Paris-Zurich trip and for both of above noted travel programs, it was *Noticee no. 6* who was handling, managing and bearing all the travelling arrangements/expenses. The records so unearthed also show that the families of *Noticees no. 3* and *4* also accompanied *Noticee no. 6* and Mr. Ashish Jindal in those trips organized by FDSL. Under the circumstances, when all these facts are seen together in an integrated manner in the context of Ashish Jindal supplying various fictitious POs to *Noticee no. 6* and RIL, it can be easily concluded without doubt that the connection between *Noticee no. 6* and Ashish Jindal travelled beyond their

normal business relations and both of them acted in concert to help RIL inflate its books of accounts to defraud the investors of securities market into believing in the concocted story of spectacular growth rate projected by the *Company*.

121. As mentioned earlier, it has been observed that certain PO issuing entities used to have different POs having different format while the POs of some other entities were in formats identical to the POs formats of some other entities. In fact, there were instances wherein two different POs of same entity were matching with the PO format of two other entities, all controlled by Ashish Jindal. This casual approach in issuing POs by the above noted entities further highlight the fact that all these entities were existing only on paper and not into any actual business but were incorporated to do only paper transactions by issuing bogus POs and invoices for aiding and abetting other entities (RIL and FDSL) in inflating/manipulating their revenue. In the present matter, it is seen that as and when the *Company* required fake POs, Ashish Jindal used to forward the same in different names by merely changing the name of entities on the top of those POs without even taking care of the necessity to issue POs in uniform manner in credible formats unique to each such entity.

122. *Noticee no. 6* has claimed that he used to forward and receive the POs and tax invoices in respect to all these entities as they were his clientele and he did not want others to have direct access to the details of his clientele in order to protect his business from directly going to other entity viz. RIL. The above submission, though looks impressive on its face, however, on a deeper examination is found without any merit for the reason that Ashish Jindal's email to *Noticee no. 6* was almost routinely sent as trail email to the email earlier sent by *Noticee no. 6* to RIL. Further, the email ID of Ashish Jindal was very much available in the records of RIL, as the contact person for AS International and Jindal Infra Solutions Pvt. Ltd. Under the circumstances, when the above details were already available to RIL, I see no reason as to how the *Noticee no. 6* could have stopped RIL from

directly dealing with the above clients/entities of the *Noticee no. 6* directly. More so, if the above named entities were exclusive clients of *Noticee no. 6*, then it is not explained as to why he could not furnish the latest addresses or whereabouts of these entities to the *Forensic Auditor*. In view of this, there is nothing in the materials before me to persuade me to accept that the management of RIL was not aware of the origin of these backdated POs to the *Company*/RIL hence, I find no substance in the contention of *Noticee no. 6* that he was forwarding these POs to RIL in order to protect its clientele from directly approaching RIL.

123. The aforesaid contention of *Noticee no. 6* once again gets negated in view of the email dated October 29, 2015 of Ashish Jindal to Smriti Pandey and *Noticee no. 6* wherein Ashish Jindal is seen to be directly forwarding tax invoices of RIL for consignee Galaxy Traders, Vipin Enterprises, Nike Sales Corporation and Seema Overseas to RIL. This again proves that Ashish Jindal was not only well known and was already enjoying direct access with RIL but also that all these afore-stated entities were certainly connected with Ashish Jindal. I have also mentioned earlier about the foreign trip where Ashish Jindal was also a co-traveller with some of the senior employees of RIL alongwith *Noticee no. 6*. Keeping all the above details in view, I am convinced that Ashish Jindal was a close associate of *Noticee no. 6* who had floated numerous mule entities, that were used by RIL to generate fake sales bills towards the fag end of the months in order to fraudulently achieve its revenue targets and Ashish Jindal was also having direct access and interaction with RIL officials contrary to the claim of *Noticee no. 6* that he did not want these entities to directly approach RIL.

124. **PS Techno Solutions Pvt. Ltd. and Zenix Computer Solutions Pvt. Ltd.**- I note from MCA database that PS Techno Solutions Pvt. Ltd. (hereinafter referred to as '**PS Techno**') was incorporated on May 26, 2015. The analysis of the financial statement of PS Techno for the FY 2015-16 shows that the total purchases of PS Techno for the whole financial year was for INR 19.73 Crores.

At the same time, the POs available on record suggest that sales by RIL to PS Techno was for an amount of INR 29 Crores. This leads to an unassailable conclusion that RIL booked bogus sales in its records in the name of PS Techno even in excess of what PS Techno had entered in its books to show as corresponding purchases from RIL, in order to inflate its revenue. I also find that there are 4 POs of PS Techno available on record, all of which were forwarded by Ashish Jindal to *Noticee no. 6* and then by *Noticee no. 6* to RIL. The details of the said POs are as following:

Table 7: Details of PO of PS Techno

Date of PO	**PO Number**	**Amount of PO**	**Date of email**	**Subject of email**
14.06.2015	No number mentioned on PO	7,39,57,212	30.06.2015	Fwd: PO PS Techno solutions
25.08.2015	1408	10,80,70,578	03.09.2015	Fwd: All Revised PO finally to ricoh in PDF
09.09.2015	908	5,38,86,000	01.10.2015	Fwd: All Po to Ricoh
10.09.2015	909	5,21,01,000	01.10.2015	Fwd: PO Sep balance stock

A cursory look at the above table shows that all the POs were sent at a later date to RIL, wherein except for the first PO, all other POs were sent in the start of next month thereby indicating backdating of POs in the books of RIL in the books of previous months to inflate sales of RIL in the said previous month. Further, an examination of Table 7 above shows that, except for the first email dated June 30, 2015, all other emails include multiple POs of different entities, all of which have already been established to be connected with Ashish Jindal. Any residuary doubt in this respect is further clarified by the subject line of the last

email which clearly establishes that these POs were generated in a back-dated manner to clear out the sales already booked in the previous month apparently with a view to reach target sales of RIL. In fact, I note that no PO number was mentioned on the PO sent with email dated June 30, 2015 while the PO numbers mentioned on the POs sent through the rest of the emails mentioned in Table 7 are also not serialised and were numbered in a manner that while PO dated August 28, 2015 was carrying a serial number 1408 and POs created afterwards in September were carrying serial numbers 908 and 909 indicating that the POs were not even in a serial manner to make them look at least somewhat credible on paper.

125. I note that Zenix Computer Solutions Pvt. Ltd. (hereinafter referred to as '**Zenix**') was earlier known as Hanuman Polymers Private Limited which changed its name to Zenix Computer Solutions Private Limited from April 28, 2015. The above change of name suggests that the said company was apparently previously not dealing with computer related items and its main business was in polymers i.e. chemical industry which has no connection with computers. It was after changing its name during the FY 2015-16, Zenix commenced its commercial activities in areas related to computer solutions. There is nothing on record to suggest as to why Zenix shifted its business from one entirely unconnected sector to computer related activities. Further, considering the facts narrated in the SCN based on the findings from the investigation coupled with the business losses, accounting frauds noticed by RIL itself as soon as BSR commenced its audit for only small period which ultimately drove RIL as well as FDSL to their fate in CIRP, I find no reason to accept that these entities including Zenix have entered into any *bonafide* transactions with RIL.

126. In the end, I would refer to an email dated October 28, 2015 addressed by RIL to *Noticee no. 6* with the subject '*Sign-off Required-Sep'15*' stating therein that tax invoices of sales made by RIL to **Zenix**, Future Human Development Ltd., MLK

Megaretail Pvt. Ltd., **PS Techno**, Shree Balaji Jee Impex, AS International, Jindal Infra Solutions Limited, Redhex, FDSL and Vipin Enterprises were forwarded to *Noticee no. 6* by Smriti Pandey. This email itself clearly establishes that all these entities were connected to *Noticee no. 6* and he was coordinating those bogus sales-purchases of these entities with RIL.

127. In such circumstances as discussed at length above, it is but natural that the *Forensic Auditor* could not find either PS Techno or Zenix at their respective addresses during the course of physical verification of their given addresses, similar to the earlier mentioned entities connected with Ashish Jindal and *Noticee no. 6*. At the same time, neither *Noticee no. 6* nor Ashish Jindal could provide addresses of these two entities either to the *Forensic Auditor* or to SEBI despite the claim of *Noticee no. 6* that these entities were his exclusive clients. Therefore, I find no reason to reach a conclusion different from the conclusion that I have arrived at with respect to the other name lending entities connected with Ashish Jindal, as discussed in earlier paragraphs of this order.

128. **Redhex IT Solutions Private Limited**- As per MCA database, Redhex IT Solutions Private Limited (hereinafter referred to as '**Redhex**') was incorporated on January 07, 2015 and its last balance sheet, available with MCA, is as on March 31, 2016 and its last AGM was held on September 30, 2016. This shows that the aforesaid company was active for only one complete financial year viz. FY 2015-16 and for 3 months of previous financial year. As admitted by *Noticee no. 6*, Redhex was promoted by his brother Mr. Bibekananda Mukherjee. Mr. Bibekananda Mukherjee was director in Redhex from its incorporation to March 27, 2015 and later became a director in FDSL from April 01, 2015.

129. It was found during investigation that Redhex was not only a major customer of RIL but also a RITS partner. Consequently, Redhex was not only purchasing products from RIL but was also providing services to various entities through

RITS partner programs. Pursuant to this, I also find numerous transactions on both sides (credit and debit) between Redhex and RIL in the bank account statements of Redhex within a close duration of time. At the same time, I also note from DRHP of FDSL that Redhex was shown as a creditor of FDSL having INR 15.68 Lakh pending on FDSL for more than 30 days, which once again establishes strong nexus of Redhex with FDSL apart from connection with *Noticee no. 6* through his brother.

130. It is also noticed from the email backup of Smriti Pandey, procured by the *Forensic Auditor* from RIL, that the customer orders from the side of Redhex were sent by employees of Redhex to *Noticee no. 6* who then used to have them forwarded to Smriti Pandey through his email ID on FDSL domain (amukherjee@fdsindia.co.in). In this respect also, it has been noticed that the orders were routed through the *Noticee no. 6* only, rather than being sent directly by an officer/director of Redhex to RIL. In return, from the side of RIL, the Tax receipts of the said sales worth INR 49.60 Crores were not directly sent by Smriti Pandey to Redhex but the same were routed through *Noticee no. 6*. Here also, as already observed above in respect of other entities, it is found that while the tax receipt in the books of RIL was generated on April 30, 2015, the PO dated April 09, 2015 was forwarded by *Noticee no. 6* to the *Company* vide email dated May 01, 2015. This aforesaid fact reveals two things, viz: that Redhex was also being used to inflate sales and revenue of RIL and further, even after Bibekananda Mukherjee had apparently left Redhex after his resignation from its Directorship on March 27, 2015, Redhex was being controlled by *Noticee no. 6* and he was dealing with RIL on its behalf.

131. Under normal business transactions, a red-flag should have been raised by the management of RIL after noticing that the POs from one vendor under RITS Partner Program of RIL viz. Redhex were coming from another vendor of RIL viz. FDSL, but despite noticing this practice for over a long period that it was

Noticee no. 6 who was dealing on behalf of Redhex, no one from RIL raised any objection to such orders and to the role of *Noticee no. 6* in creating such purchase orders. I also find that similar to the trend observed with respect to the sales made to other mule entities connected to *Noticee no. 6* as discussed above, majority of the sales invoices in favour of Redhex were also generated by RIL only in month ends.

132. At this point, reverting back to the circumstances that necessitated the passing of the *Interim Order*, it is noticed that the *Interim Order* records that there was no documentation to accord the creditworthiness of Redhex, as the said company was incorporated in January 2015 only. It further records that despite knowing this, RIL had granted a credit limit of INR 50 Crore to it for a period of 270 days in April 2015 itself i.e. after 3 months of its incorporation. While the credit limit of INR 50 Crores itself appears to be provided to Redhex without even employing basic level of due diligence, what is more striking is the fact that the unpaid dues of Redhex were allowed to accumulate upto INR 72 Crores which RIL had to write off in its books of accounts against the sales so made to Redhex which poses a serious question with respect to the very genuineness of the sales transactions of RIL with Redhex as no company with minimum business prudence would ever extend credit facility so liberally to a newly created unknown entity nor can even write off such a huge debt so easily without taking recourse to any enforcement measures to recover the dues through court of law or otherwise..

133. The same *Interim Order*, after reviewing of tax returns filed by FDSL and Redhex, has observed that Redhex's total purchases during the half-year ended September 30, 2015 was INR 197 crore out of which INR 196.59 crore (99.70%) was purchased from RIL. It was observed in the said *Interim Order* that all the sales made by RIL to Redhex were back to back trades as the purchases with respect to these sales were made by RIL from FDSL for an aggregate of INR 169 crore

before selling the same items to Redhex. Interestingly, FDSL in turn had purchased goods amounting to INR 79 crore from Redhex during the half-year ended September 30, 2015. This clearly shows that a substantial portion of sales by RIL to Redhex has originated from FDSL, part of which again, appears to have been sold back by Redhex to FDSL, thereby indicating that these transactions are circuitous in nature only on paper without involving actual movement of the underlying goods form any of these entities. Had these transactions been genuine purchases and sales done in ordinary course of business, given the fact that Redhex and FDSL were connected entities, both being managed by *Noticee no. 6*, it doesn't make any commercial sense for Redhex to purchase items from FDSL via RIL hence, such circuitous transactions raise serious questions on the intent behind entering into such transactions by the entities concerned which was nothing but to artificially inflate the revenue and profit of RIL, as highlighted in detail, in the discussions pertaining to such transactions of RIL with many more similarly placed entities in the foregoing paragraphs..

134. In context of the sales and purchases of Redhex with other connected entities, it is relevant to mention here that Redhex had given two purchase orders to RIL on September 04, 2015 having numbers Redhex/2015-16/Sept/03 and Redhex/2015-16/Sept/04. Both of these POs were sent by *Noticee no. 6* to Smriti Pandey vide email dated October 06, 2015 i.e. after the quarter and month ending September 30, 2015 which implies that these POs were backdated to enable achievement of monthly and quarterly targets of RIL. Moreover, a comparison of these two POs shows that one item, viz: 'Laptop HP-240' was common in both POs. However, while unit price of the said item in the first PO was given INR 34,700; the same was priced at INR 41,940 in the second PO. In this respect, it is observed that there is no explanation on record to justify as to why two different prices have been quoted in the said two different POs for the same

Laptop which constrains me to view that the said POs were not genuine, and were issued only by way of an attempt to make backdated entry into RIL's records to achieve its revenue targets showing fictitious sales to Redhex.

135. In the light of the above, it is not surprising that the *Forensic Auditor* has failed to locate Redhex at the address available with RIL or at the address mentioned in MCA portal. I also find that a Tax Invoice of Redhex dated July 04, 2016, attached as Annexure 79 of FAR, carries the same number on it as VAT Number as well as CST Number of Redhex thereby throwing more suspicions on the genuineness of the said tax invoice. Further, an attempt to find details of Redhex on www.tinsyx.com by using the said TIN Number or CST Number proved futile and returned no results. It therefore shows that the said VAT Number or CST number mentioned on the bills of Redhex was fake and no taxes were being deposited for those fudged sales made by it to FDSL or RIL.

136. In addition to all the aforesaid factual analysis, the fact that Redhex was incorporated only in 2015 and immediately after its creation, it started giving purchase orders to RIL in the range of hundreds of crores and at the same time was inducted by RIL as its RITS partner but it went out of existence for all practical purpose immediately after the disclosure of inflation of books of accounts leading to declaration of loss of INR 1123 Crores by RIL, and all these factual events strongly supports the conclusion arrived earlier that the sole purpose of incorporation of Redhex was to be used for inflating the revenues and profits of RIL and FDSL, which also led to artificial rise in share price of RIL and helped in listing of FDSL.

137. **Rudra Enterprises**- I note from the DRHP of FDSL that *Noticee no. 6* held significant control over Rudra Enterprises at least till March 30, 2015 and thereafter it seized to be a related party, presuming that the entity was transferred to a new management. In this regard, it is observed that *Noticee no. 6* has two

children, and the name of one of them is Rudra, which may be the rationale for keeping the name 'Rudra Enterprises' of the entity.

138. I note from the *Interim Order* that PwC had mentioned in its report that the Domain ID of Rudra Enterprises (Rudraentin) was registered in the name of *Noticee no. 6* as late as on January 02, 2016, much after the date on which the ownership of Rudra Enterprises was claimed to have been transferred by *Noticee no. 6* and in DRHP of FDSL it ceased to be shown a related party of FDSL. In response to the above observation, *Noticee no. 6* had stated that he had transferred the login id and password to the new management when Rudra Enterprises was transferred to the new management, however, the domain was purchased for the first time by him in January, 2016 only, before which there is no evidence of existence of domain in the name of Rudra Enterprises to transfer the same to anyone. The explanation of *Noticee no. 6* does not elucidate as to why the new management of Rudra Enterprises didn't purchase the new domain directly in their own name and why *Noticee no. 6*, who is supposed to have transferred the said entity to a new management, had to purchase such domain ID and transfer the same to the new management.

139. I find that vide email dated August 07, 2015, Smriti Pandey had sent a number of retail invoices showing sale of certain computer related items by RIL to Redhex and Rudra Enterprises. An analysis of invoice dated August 05, 2015 through which RIL had shown to have sold certain computer hardware to Rudra Enterprises gives rise to two findings. Firstly, the tax invoice was sent to *Noticee no. 6* five months after he had purportedly left the said firm in March 2015. Secondly, in most of the items sold, the name of the brand/maker of product is missing from the invoice, making it difficult to identify the products which were sold by RIL to Rudra Enterprises. This gives rise to two inferences in this matter; firstly, that the disclosure that Rudra Enterprises stopped being related party to FDSL in March 2015 is false and secondly, that the details of products were

deliberately not given in an attempt to avoid traceability of the said items.

140. I also note from the bank account statement of Rudra Enterprises that a payment of INR 22,79,961/- was made on July 25, 2014 towards purchase of a Toyota Fortuner car and a car bearing Registration No. HR-10X-1002 was shown to have been purchased on the same day in Gurugram against a bill payment of same amount. However, from the examination of RTO records regarding the said car, the *Forensic Auditor* found that the said car has been invoiced and registered under the name of one Dalbir Singh. The same Dalbir Singh has signed RITS Partner Agreement between RIL and FDSL as an employee of FDSL. At the same time, the Phone Number mentioned in the Invoice for said Toyota Fortuner belonged to one Mr. Rakesh Khokhar, another employee of FDSL. I find it relevant to mention here that none of these facts has been disputed by *Noticee no. 6* or any of the other *Noticees* during the course of present proceedings.

141. I find from the analysis of bank statement of Rudra Enterprises that a sum of INR 35.60 Lacs was transferred from FDSL to it which was in turn transferred on the same day to Namita Mukherjee, wife of *Noticee no. 6* and herself a director in FDSL. I find it important to mention here that the said transaction had taken place on October 15, 2015, i.e. apparently after the transfer of Rudra Enterprises to a new management happened, and no explanation for the said transaction has been furnished by *Noticee no. 6* at any stage of the present proceedings. In view of all the above-mentioned compelling facts, I find that the management of Rudra Enterprises was transferred to someone else merely on paper, apparently in an attempt to not disclose it as related party to FDSL in NSE filings and in the DRHP of FDSL at the time of listing of the same, despite the glaring fact that the whole and sole control of this entity was always in the hand of *Noticee no. 6*.

142. Further, as found in the case of Redhex, I find from the bank statements of Rudra Enterprises that funds were continuously being credited and debited amongst

RIL, FDSL and Rudra Enterprises. In fact, there were certain transactions wherein money appears to be just moving from one account to another of different connected entities. Some such instances of money transfers have been illustrated in the below table:

Table 8: Round Tripping of funds through the account of Rudra Enterprises

Date	Transferor	Transferee-1	Amount (in INR)	Transferee-2 (Amount)
09/06/2014	FDSL	Rudra Enterprises	3,00,00,000	RIL (3,00,00,000)
28/08/2014	RIL	Rudra Enterprises	5,00,00,000	FDSL (10,00,00,000)
	RIL	Rudra Enterprises	5,00,00,000	
30/08/2014	RIL	Rudra Enterprises	5,00,00,000	FDSL (5,00,00,000)
09/09/2014	RIL	Rudra Enterprises	5,00,00,000	RNMIT (1,00,00,000)
	RIL	Rudra Enterprises	5,00,00,000	New Code (5,00,00,000)
11/09/2014	RIL	Rudra Enterprises	3,60,00,000	FDSL (2,60,00,000)*
10/02/2015	Aastha Impex	Rudra Enterprises	5,00,00,000	RIL (7,00,00,000)
	Aastha Impex	Rudra Enterprises	1,98,00,000	
23/03/2015	FDSL	Rudra Enterprises	5,00,00,000	RIL (5,00,00,000)
31/03/2015	FDSL	Rudra Enterprises	3,00,00,000	RIL (3,00,00,000)
11/06/2015	FDSL	Rudra Enterprises	9,00,00,000	RIL (9,00,00,000)

143. The above series of *inter-se* transactions shows that the same funds were being rotated amongst FDSL, RIL and Rudra Enterprises, as well as their connected entities, in a circular manner. It appears that the intent of routing these transactions through various connected entities such as Rudra Enterprises was to inflate the overall operational numbers of RIL as well as FDSL and Rudra Enterprises was being used as a conduit in such fraudulent activities of RIL and FDSL. This conclusion gets further fortified from the bank statement of Rudra Enterprises which shows that such transactions drastically reduced to almost minuscule amount after the fraudulent scheme started to become public. Adding to this, though *Noticee no. 6* claims the physical existence of Rudra Enterprises, it

is a matter of record that it was not traceable during the forensic audit exercise and no evidence of its existence has been produced by *Noticee no. 6* at any stage of present proceedings.

144. In this regard, *Noticee no. 6* has claimed to have no connection with Rudra Enterprises despite continuously forwarding its POs to RIL and receiving tax receipts for such trades from RIL. Had it been the case of *Noticee no. 6* that he was merely acting as a link between RIL and Rudra Enterprises, he would have provided the details of new management and the actual address of the said entity. He could have also provided his emails forwarding the tax receipts of RIL to the management of Rudra Enterprises. Given the fact that *Noticee no. 6* has failed to provide either of them leads to a strong conclusion that Rudra Enterprises was another front entity of him providing him a vessel to inflate the sales and revenue of RIL. The same conclusion gets strengthened in the light of the fact that *Noticee no. 6* had also provided editable tax invoice and purchase orders of Rudra Enterprises to RIL and the said entity virtually seized to exist post the disclosure of the financial wrongdoing by the *Company* to SEBI and BSE.

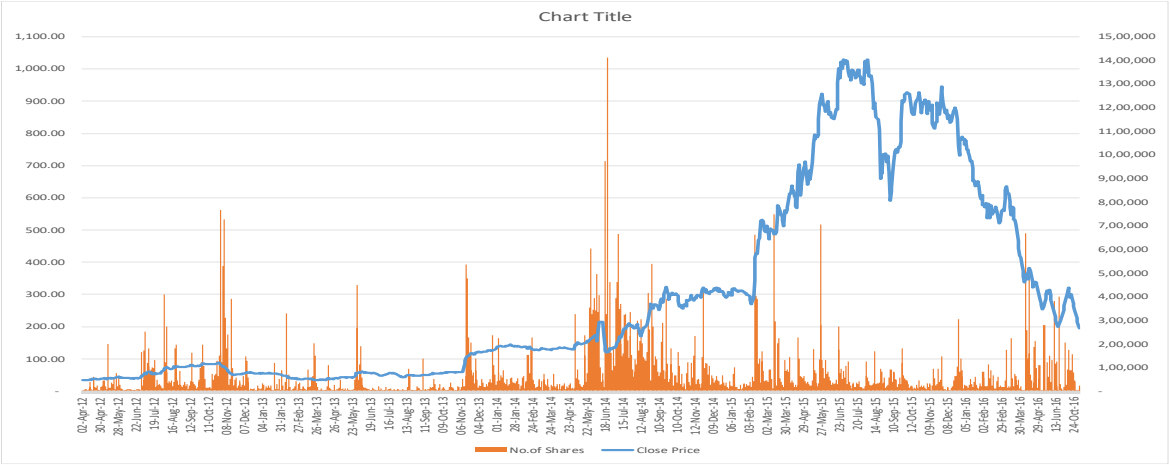
145. At this stage, it is pertinent to refer to and rely on the findings made in a separate Order dated July 06, 2020 which was passed on a separate show cause notice issued to the *Noticee no. 6* by SEBI alleging the violation of provisions of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 and Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 in the scrip of RIL, and in the said order the following finding was recorded in respect of *Noticee no. 6* and Rudra Enterprises:

"*I note from the Forensic Auditors Report that the Prospectus of FDSL reported that the Noticee held significant control over Rudra Enterprises and Domain ID of Rudra Enterprises was registered in the name of the Noticee. The Report also noted circular transactions between Rudra enterprises, Ricoh and FDSL.*"

I note here that the aforesaid findings pertaining to Rudra Enterprises have now attained finality as an appeal preferred against the above order dated July 06, 2020 has come to be dismissed by the Hon'ble SAT, vide its order dated January 19, 2021. I have also been informed that the above order and findings of the Hon'ble SAT have not been interfered with by the Hon'ble Supreme Court in the appeal and review appeal filed by *Noticee no. 6*. Therefore, I see no hindrance in accepting the above findings that Rudra Enterprises and FDSL are connected entities.

146. Given the factual details and various supporting evidences pertaining to the transactions of RIL with various entities that are connected to FDSL and *Noticee no. 6* directly or indirectly as discussed above, all doubts can now be put to rest to conclude with conviction that these entities were used by RIL and its management to inflate the revenue of the *Company* during the Investigation Period, sometimes by way of generating fake purchase orders and sometimes by way of round tripping of funds amongst RIL, FDSL and the connected entities of *Noticee no. 6* or Ashish Jindal, which cumulatively led to disclosure of inflated numbers of revenue and profit by the *Company* to BSE thereby creating a false and misleading impression in the minds of the shareholders of the *Company* and general investors about the remarkable growth being displayed by the *Company*, leading to rise in the market scrip price of the *Company*:

Chart 1: Price movement in the scrip of RIL during the Investigation Period*



* The scrip of RIL was suspended by BSE from trading w.e.f. December 13, 2016

The above chart shows an extraordinary movement in the prices of the scrip of RIL, especially since 2013 when in a period of less than two years, the price of the scrip of RIL has increased by more than ten times. It further shows through price of the scrip was trading around INR 100 during October 2013 and reached upto INR 1072.25 in the month of July 2015. During the period, the *Company* had disclosed extraordinary results which, suddenly upon exposure of the wrongdoing, started tumbling. This evidently shows that the exponential rise in the price was, in the absence of any justifiable explanation, majorly attributable to the inflated sales and revenue generated through the fictitious transactions.

147. From all the above noted details and foregoing discussions, I am of the view that sufficient evidences have been placed on record to prove that entities were connected in one way or the other to the *Noticee no. 6*, who was also instrumental in managing and handling the affairs of the abovementioned entities at least to the extent of their transactions with RIL. RIL had numerous transactions with these entities amounting to a large proportion of its total revenue coming from the fake sales invoices raised on them against fake backdated POs received from these entities and these entities were further found to be related and effectively under the same management headed and controlled by *Noticee no. 6*. At the cost of repetition, it may be reiterated that the aforesaid conclusion about *Noticee no. 6* is being made after observing that *Noticee no. 6* was always acting as the central point through which RIL was getting the POs from these entities and RIL was also sharing the bills/tax paid invoices in favour of those entities only through *Noticee no. 6*. *Noticee no. 6* has attempted to explain his role by stating that these entities were his customers and he wanted them to deal with RIL only through him which was an industry practice as it would protect him from losing his customers if they directly dealt with RIL. However, this claim of *Noticee no. 6* has already been demolished on the basis of the findings that these entities were not

his customers but were directly connected to him and were practically being controlled by him and yet he did not provide the correct addresses of these entities to the *Forensic Auditor* as none of these entities were traceable at their given addresses except for Jindal Infra Solutions Limited. In fact, his argument of protecting his clientele from directly approaching RIL gets completely decimated in the light of the fact highlighted earlier that there were emails sent by Ashish Jindal to RIL directly with copy marked to *Noticee no. 6* and Ashish Jindal was recorded by RIL as the contact person for many of these entities.

148. The above discussions also reveal sufficiently that the *Noticees no. 1 to 4*, being in the control of the affairs of the *Company*, were well aware of and were tacitly or explicitly involved in such arrangements and dealings as there are emails from *Noticee no. 6* addressed to RIL copies of which were constantly being marked to *Noticees no. 1, 3* and *4*, which evidently exposes that they were at all points of time kept abreast of every such transaction being entered with the above-mentioned entities during the Investigation Period, till they were sent on leave by RIL. From the aforesaid, it can be reasonably concluded that these *Noticees* can't feign ignorance of those events and sales transactions & circular transfers of money happening within the *Company*. It may be a totally different point for them to argue that they were not actively involved in these transactions or did not derive pecuniary benefit out of the entire scheme perpetrated upon the shareholders of the *Company*. However, I find that there has not been a shred of evidence advanced by them jointly or independently to exhibit their innocence or at least to demonstrate that some minimal steps were taken by them to stop the ongoing fraud by way of transacting into bogus, fictitious and *malafide* trades in connivance with FDSL, *Noticee no. 6* and the afore-discussed entities connected with him. As a logical extension to the aforesaid finding, I am of the view that *Noticees no. 1, 3* and *4*, by allowing *Noticee no. 6* to continue round tripping of funds and resources, were equally involved in fulfilling the whole scheme of fraudulently inflating the

revenue of RIL, as discussed elaborately in this order.

149. Further, I have clarified in the beginning that the present matter is not regarding siphoning off funds of the *Company* but is a case of inflated sales and inflated profits artificially achieved through the contrivance of the *Noticees no. 1 to 6* to impress the parent organization in Japan as well as the shareholders of the *Company* with better figures of growth on a regular basis. Therefore, RIL attempted to achieve the high targets set by itself/parent company till last days of the month and when found those targets unachievable, it indulged in acts of entering into bogus transactions so as to book inflated sales in connivance with connected entities viz. FDSL and other connected entities of *Noticee no. 6* at the end of the month. The backdated POs in respect to these fictitious sales invoices used to be provided by Ashish Jindal and *Noticee no. 6* to RIL in the start of next month to comply with accounting requirement as these *Noticees* would not be fully aware of exact shortfall in target set up by the *Company* or its parent entity, till the end of previous month.

150. From a combined reading of the instances of round tripping of funds that have been illustrated earlier with the write off of huge amounts of bad debts on account of accumulated outstanding receivables as highlighted in Table 5 of this Order and the back dating of POs as well as back to back sale purchase and lease transactions in a circular manner happening between RIL, FDSL and other connected entities without involving actual movement of goods as demonstrated in preceding paragraphs, I am of the view that the *Noticees no. 1, 3, 4 and 6* have indulged in a scheme of steadily building up sales of RIL with a major part of such sales contributed by the fictitious sales to the aforesaid connected entities but in the end the balances of some of the debtors had to be written off after red flags were raised by BSR about certain sales being not backed by proper documentation and the inflated sales had to be acknowledged as losses which in present case, came out to be INR 1123 Crores. It clearly establishes that the

financial statements published by the *Company* were misstated in the abovementioned manner.

151. It is a well-established fact that the Financial statements including Balance Sheet, Profit & Loss Statement and Cash Flow Statements reflect a company's financial performance and true state of affairs of a company. They show profits and assets/liabilities of the business. The shareholders of a company rely on these statements to understand how their investments are paying off. If a company is earning profits, they might decide to invest even more money in that company. On the contrary, stagnant profits or even losses are likely to prompt them to take out their investment in the company or not to invest more in the same company. Investors also extensively use a company's financial statements to assess its finances. The regulatory bodies too heavily rely on the true status of the financial results of a listed company to ensure the protection of investors.

152. Therefore, the aforementioned inflated and fabricated financial results of the *Company* prepared on the basis of fictitious sales to various shell entities and round tripping of funds to such entities connected to *Noticee no. 6*, would have definitely influenced the decisions of investors to buy or sell in the scrip of RIL and the same can easily be established by looking at astronomical rise in the scrip price of RIL during FY 2010-11 to FY 2015-16, as clearly visible in chart 1 above. Such inflated sales, concocted by the *Noticees no. 1, 3, 4* and *6* very well knowing that these sales are inflated and are not genuine sales are nothing but fraud played on the investors who were led into believing that the *Company* was doing exceedingly well in its business by registering higher and higher revenues from quarter to quarter, and accordingly were lured into purchasing its shares in the hope of better prices and better returns in future. Therefore, publication of such inflated and false financial statements constitutes a blatant violation of provisions of Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

RITS Partner Program

153. It was also noticed during the course of forensic audit that the major part of growth of RIL was contributed significantly by its IT Services vertical while the traditional business of Ricoh group did not witness any such eye-catching growth. I note that entry of the *Company* into the IT Services segment also coincided with the entry of *Noticee no. 2* into the *Company* as its MD in FY 2011-12. While the *Company* had taken over Momentum Infocare Private Limited in Financial Year 2010-11, the exceptional growth years of this business vertical of the *Company* happened during the tenure of *Noticees no. 1* & *2* as the MDs of the *Company*, first during the tenure of *Noticee no. 2* and then during the tenure of his successor viz. *Noticee no. 1*.

154. I notice that RIL had initiated a programme named Ricoh IT Services Partner Programme (in short '**RITS Partner Program**') for its IT Services Business that it wanted to conduct across India. The said program was described as a multi-tiered partnership model designed to offer resources of RIL to its enrolled partners for growing RIL's IT Services business. Under the program, partners were given access to a variety of benefits to assist them in developing their expertise in open source solutions. Upon registration, the partners were given marketing, sales, and training benefits specifically designed to assist them in building IT Services practices. The said program was directly managed and supervised by *Noticees no. 1* and *4* till the time they were directed to proceed on leave.

155. It is claimed that the partners were empanelled on the basis of the vendors' standing and other parameters such as number of cities that the partners were present in etc. The empanelment was to be done under four different categories, prescribing different 'minimum targets' of business that a partner is required to bring under each level of enrolment. Such categories created under RITS Partner

Program and the minimum business closure targets for each of the said categories were as following:

RITS Ready Partner - INR 1 Crore

RITS Silver Partner - INR 10 Crores

RITS Gold Partner - INR 50 Crores

RITS Titanium Partner - INR 100 Crores

156. I note from the FAR that only three entities were enrolled by RIL as partners under RITS Program by way of separate agreements, details of which have been enumerated below:

Table 9: Details of RITS Partners Program Agreements

Partner Name	Level of Partnership	Date of Agreement	Agreement signed on behalf of RIL	Witness on behalf of RIL	Agreement signed on behalf of Partner	Witness on behalf of Partner
FDSL	Titanium	03-02-2015	Manish Sehgal (CS)	Vikas Singhal	Amalendu Mukherjee	Dalbir Singh
Redhex	Gold	16-03-2015	Manish Sehgal (CS)	No witness	Director (not legible)	Jitendra Sharma
Vedavaag	Gold	04-02-2015	Manish Sehgal (CS)	Smriti Pandey	J Murali Krishna	Amalendu Mukherjee

157. I find that *Noticee no. 6* has claimed that there were at least 10 RITS partners. However, no evidence has been placed on record to support this submission. On the other hand, the *Forensic Auditor* has specifically stated in its report that there were only three partners to RITS Partners program. In support of this, the *Forensic Auditor* has attached with FAR the agreements signed by RIL with all the above mentioned three entities. I also note that essentially the entire old management team of RIL has been subjected to the SCN issued under the present proceedings, including *Noticees no. 1* and *4*, both of whom were supervising the said program. However, no one from the old management team of RIL has raised any objection to this finding of *Forensic Auditor* stating that there were only three RITS Program

Partners. Therefore, in the absence of any evidence in whatsoever form to the contrary, I don't find any reason to believe that there were more than three entities which had signed up for RITS partner program.

158. I have already established during discussions in the preceding paragraphs that all the three aforementioned entities viz. FDSL, Vedavaag and Redhex were connected with each other. This finding gets further strengthened from the fact that *Noticee no. 6* was found to be a signatory as a witness on behalf of Vedavaag to the agreement of RITS Partner Program signed between RIL and Vedavaag. I find no cogent reason as to why the Managing Director of one entity (FDSL) competing to be a RITS programme partner will help another competitor to get registered under such a specially curated commercial program and help that competitor in getting similar benefits from RIL at the cost of its own commercial interest under the same programme. The aforesaid act of *Noticee no. 6* also contradicts the earlier discussed submission of him stating that he was forwarding POs of all the suspected entities to RIL as he wanted to protect his business by preventing his customers from being directly accessed by RIL. This also raises a strong suspicion as to why only these three entities, connected *inter-se* through *Noticee no. 6* including Redhex on behalf of whom the POs were being submitted by *Noticee no. 6* to the *Company*, were selected for this program and strongly points towards the foul play and which was ultimately a big contributor in the fraud that has been perpetrated on the books of accounts of the *Company*, as observed in the course of forensic audit exercise.

159. At this stage, a comparative perusal of the three RITS Partner agreements leads to the following observations:

    159.1. In all the three agreements, it is mentioned on page no. 2 that these agreements were created and reviewed by *Noticee no. 4* and were approved by *Noticee no. 1*.

159.2. The last page of the agreement was titled 'Annexure B-Sample Opportunity Form', which contained signatures of *Noticees no. 1* and *4* in two such agreements (Vedavaag and FDSL), except for the Redhex Agreement. At the same time, the said part of agreement viz. 'Annexure B-Sample Opportunity Form' is found to have been added at the end of both the agreements of Vedavaag and FDSL separately. This discrepancy is glaringly clear from the fact that the said last page was signed at a different time prior to signing of the original agreements and the running page number of the said Annexure B is different from the sequencing of rest of the pages of the respective Agreements. The same is further evident from the fact that, while the immediate preceding pages, both in the FDSL agreement and Vedavaag agreement, have been paginated as 'Page 13 of 15' and 'Page 13 of 14' respectively, the Annexure B has been paginated as 'Page 13 of 13' in both these agreements. At the same time, the agreements of FDSL and Vedavaag have been signed on February 03, 2015 and February 04, 2015 respectively, whereas the said Annexure B, containing signature of *Noticees no. 1* and *4* was signed on February 02, 2015.

159.3. As mentioned earlier, the signing of the agreement between RIL and Vedavaag was witnessed by *Noticee no. 6* from the side of Vedavaag.

160. I also note from perusal of the RITS Partner Program agreement between FDSL and RIL that the same was witnessed by one Dalbir Singh from the side of FDSL on February 03, 2015. Interestingly, Dalbir Singh has declared himself as 'Manager-Admin, Fourth Dimension Solutions Ltd.' while signing the Agreement as a witness, which establishes that he was an employee of FDSL as on February 03, 2015. At the same time, he has been shown as a commission agent/broker in the accounting records of FDSL and commission to the tune of INR 13.50 lacs were shown to have accrued to him in the month of December 2014 (FY 2014-

15). Out of the said commission of INR 13.50 lacs payable to Dalbir Singh, an amount of INR 1.50 lacs has been shown to have been paid to him. Similarly, an amount of INR 32.40 lacs has been shown as commission in his name in FY 2015-16, out of which INR 17.81 lacs have been shown to have been paid to him, while the cumulative balance unpaid amount for both these years viz. INR 26.59 Lakh appear to be outstanding liability payable to him in the books of FDSL. At the same time, the statement of Axis bank account No. 915XXXXXXXX0423 of FDSL shows that FDSL was continuously paying Dalbir Singh an amount in the range of INR 72000 to 81000 every month since November 2015 onwards which had increased to around INR 3 Lakhs per month after July 2016.

161. At this juncture, it may be recalled that the connection of Dalbir Singh with Rudra Enterprises (Toyota Fortuner purchased from funds of Rudra Enterprises was registered in the name of Dalbir Singh) has already been elaborated in the previous paragraphs of this Order. From a perusal of the Axis bank account statement in respect of Account No. 91XXXXXXXXXX750 in the name of Rudra Enterprises, I find that a payment of more than INR 33,00,000 had been made in the name of Dalbir Singh in two tranches dated February 06, 2014 and May 04, 2016.

162. I also find from MCA database that Dalbir Singh was also a director of M/s. Veloce Tech Information Pvt. Ltd. from November 12, 2018, wherein his email ID is mentioned as dalbirfds@gmail.com. It is pertinent to note that the words 'FDS' is used in his email id registered as the contact person for Veloce Tech Information Pvt. Ltd., which is apparently the abbreviation of 'Fourth Dimension Solutions'. He also appears to have gone on a trip to Delhi-Dubai-Mauritius during July 03-06, 2015 with *Noticee no. 6* and his family, tickets for which were booked by *Noticee no. 6*.

163. All these facts elaborated above establish two things; firstly, that Rudra

Enterprises as well as Veloce Tech Information Pvt. Ltd. were under control of *Noticee no. 6* through his employee Dalbir Singh and Secondly, Dalbir Singh was used as a mule by *Noticee no. 6* in some of his dealings in order to give effect to some of his fraudulent operations.

164. I note from the FAR that RIL failed to provide any information to the *Forensic Auditor* regarding the sales made under its RITS partner program. This leads to a view that the financial affairs and accounting pertaining to the transactions undertaken under the RITS partner Programme as well as the relevant MIS and revenues thereof, were known only to a very few persons inside RIL, all of whom belonged to the old management of the *Company*. This includes those officials who had signed the RITS partner agreements, as well as those who were in charge of governance of the *Company* (such as COO, CEO, CFO, MD, Chairman etc.). These facts get corroborated by the following findings given in the *Interim Order*:

"*Ritu Malhotra, a former employee of Ricoh who was responsible for preparing and circulating MIS including the forecast and flash reports during the half-year ended September 30, 2015, mentioned in her written statement dated September 28, 2016 that:*

i. Unlike in the case of non-ITS business where she received inputs relating to forecasts and actual revenues from the regions, in the case of ITS business, similar information was either not received from regions or even where received not considered by Anil Saini.

ii. *ITS forecasts and actual revenues were provided by either Manoj Kumar or Anil Saini (verbally and not through email or any other written form) based on which she prepared and circulated the forecasts and the flash reports.*"

165. The *Forensic Auditor* as well as SEBI Investigation team were unable to find out exact quantum and value of sales made vide RITS Partner program due to insufficiency of the accounting software and inadequacy of internal records of the *Company*. However, *Noticee no. 6*, in his submissions before me, has admitted that all his transactions with RIL were executed under RITS Partner Program. A

comprehensive reading of the aforesaid facts makes it clear that, under RITS Partner Programme, the system was such that FDSL used to bring business orders in the name of other entities, including for his controlled/connected entities, to RIL; then those orders were placed by RIL to FDSL and its other connected partner entities after which supplies were made by FDSL directly to such customers of RIL. The invoices seen in the accounting software of FDSL & RIL showed such orders as end to end transactions for supplies wherein the goods were to be supplied directly by FDSL to the customers of RIL, based on instructions and communications received from RIL, essentially leaving no role for RIL to play other than passing on the clients' orders to FDSL for necessary supplies on behalf of RIL to the clients.

166. I further note that the *Forensic Auditor* has identified certain transactions that were executed by the *Company* as part of RITS Partner program, which are cited as below:

Table 10: Details of certain transactions under RITS Partner Program

Sr No	Customer Name	Value of Transaction (Rs.)	Tax (Rs.)	Total Amount (Rs.)
1	Aastha Impex	32,13,29,500	1,60,66,475	33,73,95,975
2	AS International	75,89,70,649	3,79,48,532	79,69,19,181
3	Figurist Industries	12,93,04,120	64,65,206	13,57,69,326
4	Future Human Development Limited	57,50,67,200	2,87,53,360	60,38,20,560
5	Galaxy Traders	9,64,56,000	48,22,800	10,12,78,800
6	Jatalia Global Ventures Limited	30,59,91,400	1,52,99,570	32,12,90,970
7	MLK Mega Retail Pvt Ltd	19,88,80,000	99,44,000	20,88,24,000
8	Nike Sales Corporation	33,50,63,700	1,67,53,185	35,18,16,885
9	PS Techno Solutions Pvt Ltd	27,42,99,800	1,37,14,990	28,80,14,790
10	Redhex IT Solutions Pvt Ltd	1,96,58,61,017	10,34,27,159	2,06,92,88,176
11	Rudra Enterprises	90,77,43,966	4,53,87,198	95,31,31,164
12	Seema Overseas	24,17,87,600	1,20,89,380	25,38,76,980
13	Shree Balaji Jee Impex	25,83,28,120	1,29,16,406	27,12,44,526
14	Vipin Enterprises	9,61,29,000	48,06,450	10,09,35,450
15	Yogya Enterprises Limited	8,75,00,000	43,75,000	9,18,75,000
16	Zenix Computer Solutions Pvt Ltd.	29,28,92,800	1,46,44,640	30,75,37,440
	Total	**6,84,56,04,872**	**34,74,14,351**	**7,19,30,19,233**

I have already held in earlier paragraphs that majority of these entities were connected and were functioning directly or indirectly under the control of *Noticee no. 6*. I have also held that these entities were used by *Noticee no. 6* in inflating the revenue and sales of RIL and FDSL by round tripping of funds. Therefore, there is a strong likelihood that these transactions shown to have been carried out under RITS Partner program were also concocted and fraudulent rotation of funds amongst these entities which operated under the control of *Noticee no. 6* so as to inflate and fabricate the revenues of FDSL and RIL.

167. To illustrate an example, I find from the Table no. 10 cited above that sales worth INR 96 Crores were shown to have been made to Rudra Enterprises for supplies under RITS Partner Program. Given the fact that all the three RITS partners were connected to *Noticee no. 6* and Rudra Enterprises was also directly connected to *Noticee no. 6*, if all these entities connected to *Noticee no. 6* (RITS partners and Rudra Enterprises) really had any tangible business, it doesn't make any business sense to the RITS partners to deal with Rudra Enterprises via RIL instead of directly dealing with Rudra Enterprises. I find from the FAR that some of the sales found to have been made using RITS Partner Program were made by FDSL to such customers of RIL that were:

a. either not found at the address mentioned in such invoices, or

b. not found at the address mentioned in data bases such as MCA; or

c. not available at the addresses found by conducting a search on Google Search Engine; or

d. where confirmation of statements posted by the *Forensic Auditor* at the addresses of these parties were returned undelivered; or

e. no contact information or details pertaining to these customers were captured in the accounts maintained by RIL.

168. In this regard, some of the *Noticees* have contended that the forensic audit has been conducted after 4-5 years from the dates of transactions. Therefore, there is a possibility that the said entities might have changed their addresses over the period of time. Some of the *Noticees* have also submitted that EOW of Delhi Police had rejected the complaint filed by the *Company* against a few entities on the ground that funds were received by RIL for those transactions and that EOW has also found the addresses of some of these entities.

169. I am given to understand that the investigation in the matter was closed by EOW due to non-cooperation on the part of the *Company* in providing documents to EOW. Given the fact that the *Company* was being managed by *Noticee no. 5* at that point of time, it is very much clear as to why the *Company* deliberately failed to provide any support either to EOW or to SEBI, as seen in the present matter. Further, as the investigation by EOW had to be closed on account of lack of evidence, the present proceedings need not follow the path of EOW proceedings as documentary evidence are very much available on record by virtue of forensic audit conducted in this matter.

170. As regards the contention that there might have been change of addresses of these companies over the period of time, the thing that is most astounding is that not a single one of these suspected entities could be found out by *Forensic Auditor* at their given addresses. Further, even after meeting Mr. Ashish Jindal during the course of forensic audit, who could have given them the latest addresses of some of the entities mentioned in the afore produced Table 10, as he was the person dealing with RIL *inter-alia* at least with respect to Aastha Impex, AS International, Galaxy Traders, Jatalia Global Ventures Limited, MLK Mega Retail Pvt Ltd, Nike Sales Corporation, PS Techno Solutions Pvt Ltd, Seema Overseas, Shree Balaji Jee Impex, Vipin Enterprises, Yogya Enterprises Limited and Zenix Computer Solutions Pvt Ltd, the *Forensic Auditor* could not get any address to locate those entities. Similarly, *Noticee no. 6* maintained his continuous non-cooperation with

Forensic Auditor, and did not provide the latest addresses if any, of these entities to the *Forensic Auditor*. During the present proceedings also, *Noticee no. 6* didn't provide the address of any of these entities despite having admitted that these entities were his clientele, which further strengthens my earlier held observations that these entities were nothing but fictitious entities. Quite expectedly also, the *Forensic Auditor* has also given a finding that in some cases, while doing physical verification of the addresses of these entities, the neighbours denied even having heard the names of these entities ever. Therefore, the claim of the *Noticees* that the non-availability of the entities at their given addresses may be on account of the change in address (even though no such proof has been submitted before me), is devoid of any merit and is nothing but a specious claim to desperately defend those false, fictitious and bogus transactions that were executed to inflate the balance sheet of RIL as have been highlighted in the previous paragraphs of this Order. Non traceability of the above entities at their given addresses coupled with the fact that no tenable justification has been advanced by any *Noticee* or any of those entities to substantiate those trades certainly aggravates the allegations made in the SCN

171. *Noticee no. 6* has also submitted that the *Forensic Auditor* has failed to check VAT Records of these entities and that these entities had paid VAT on the so called suspicious transactions. However, the *Noticee no. 6*, while asserting payment of taxes by these entities, has failed to provide any evidence of the same. On the other hand, I found that TIN Number of some of these entities, mentioned on their tax invoice were bogus as no registration by such TIN Number was found on www.tinsyx.com just like in case of Redhex and Future Human Development Limited where no entities were found to have been registered with the TIN Number mentioned in their respective POs. At the same time, in the case of Galaxy Traders, I find that the TIN registration was taken just one month before transactions worth more than INR 10 Crores were made with RIL. Even in that

registration, the name of the entity was wrongly spelled as "Galexy Traders" in place of "Galaxy Traders", as mentioned in PO of this entity.

172. Even presuming that payment of taxes have been made by some of these entities on their invoice value, it will be erroneous to assert that mere payment of tax on the invoice value of a transaction would *suo motu* render the transaction in question a valid and legal transaction. Actually, tax is a claim on the part of government for non-exempted sales of goods or services made through such transactions. Payment of VAT doesn't *per se* make these transactions legal if these transactions are executed merely on paper without any actual underlying exchange of goods or services. Taxation of a transaction does not decide the legal character of the transaction and every transaction that is liable for relevant taxation, irrespective of its legal or illegal character, will be liable for appropriate taxation. As an illustration, I would like to mention the judgment of Hon'ble Supreme Court of India in *T.A. Quereshi vs. Commissioner of Income Tax, Bhopal* [(2007) 2 SCC 759] which allowed the appellant therein to deduct the cost of heroin seized as a business loss (even though the business dealt with a contraband and illegal goods). Similarly, in *Commissioner of Income Tax vs. M/s Khemchand Motilal Jain* [2011 (4) MPLJ 691], a Division Bench of the Hon'ble Madhya Pradesh High Court allowed ransom money paid to the kidnappers of an employee of the respondent company, who was on a business trip, as business expenditure. In the celebrated case of *Commissioner of Income Tax vs. Piara Singh* [1980] 124 ITR 40, the Hon'ble Supreme Court held that a smuggler subjected to tax on his smuggled income is entitled to deduction of loss incurred on account of confiscation of currency notes employed in the smuggling activities. While these case laws pertain to income tax matters, the same stand remains applicable to transactions attracting other tax laws like GST, VAT etc. as well. Therefore, even if the suspected entities had paid tax (VAT, GST etc.) on the fraudulent round tripping transactions that have been discussed in the previous paragraphs, the said acts of

payment of taxes on their part don't bestow legitimacy to these transactions fabricated to inflate the turnover and balance sheet. It is quite understandable that the GST or VAT authorities didn't raise any issue upon those transactions or invoices as the same were in no way avoiding the applicable taxes. In fact, these transactions were inflating the revenue of RIL leading to higher tax inflow into Government coffers. Therefore, there was no reason apparent on record for Tax Authorities to raise any red-flag.

173. I also note that, for the transactions pertaining to IT Services business vertical which *inter-alia* included the RITS Partner Program, the accounting software used by the *Company* was 'Tally'. It has been noted at many places in the *Forensic Audit Report* that the accounting records maintained in Tally did not contain even the basic information of vendors or customers (such as contact person name, PAN, Address etc.) which was contrary to the standard operating procedures seen across Ricoh group of companies all over the world. In fact, it is against the basic accounting practice that large transactions in the range of crores of rupees were being recorded in the names of certain connected entities without entering basic details such as contact person names, PAN number and Addresses etc. into the Tally Software. In the light of the above noted gross irregularities in the accounts, it makes a perfect sense that none of these fictitious entities was found at their respective addresses as available in the records of RIL as the addresses and other details of these entities were never entered properly or updated in the accounting system while the *Company* was busy in the process of generation of fictitious sales records by following the *modus operandi* in collusion with *Noticee no. 6* as discussed above.

174. Thus, except for making various bald assertions, not even one *Noticee* has been able to provide the proof of existence of any one of these untraceable entities, to refute the findings/observations of the *Forensic Auditor* and the consequent allegations mentioned in the SCN whereas they were having transactions in the

range of crores of rupees with these entities. It goes on to prove that these entities actually never existed on ground and are mere paper entities.

175. Thus it is very much clear that the purchases shown by RIL and the corresponding sales thereof to non-existing customers under the RITS Partner Programme, which was being managed as part of the ITS Vertical of RIL under the leadership of *Noticee no. 1*, were fake and done with the intent of inflating the turnover of RIL, so as to show a rosy picture of the financial affairs of RIL so as to demonstrate a rapid business growth, though in actuality was merely on paper. In other words, such round tripping transactions, wherein the transacted amount and goods remained within the same group of entities were done only to facilitate higher financial turnover and performance without any actual movement of funds and goods. This led to revenue growth only on paper without any real term growth in terms of capacity of the *Company* or its profit and no actual generation of free cash flow also took place.

176. Using this strategy, i.e. generation of fictitious revenue from the fictitious transactions carried out involving the connected entities thereby using round tripping of funds amongst RIL, FDSL and its connected entities, RIL continued to show inflated revenues at least since the time *Noticee no. 2* joined the *Company* as MD and CEO and made it his mission to triple the revenue of the *Company* within a period of 3 years. To fructify such an aggressive target, *Noticee no. 2* started business relations with FDSL and indulged into these fraudulent transactions. Once used to such a contrived strategy, the *Company* continued to adopt the same scheme even after *Noticee no. 2* got promoted and shifted to Singapore and his understudy, *Noticee no. 1* took his place as MD of the *Company* till these fraudulent activities got exposed by the incoming new auditors BSR. It is to be noted that as the *Company* has gone through CIRP proceedings and new management has taken over, any action w.r.t. the *Company* is barred by Section 32A of IBC.

UID Kits

177. Unique Identification Kit (in short '**UID Kit**') is a set of computer hardware equipment purchased for the purpose of providing services to various Government Departments relating to issuance of Aadhaar cards to the citizens of India as well as for the purpose of certain other services. The said kits generally include laptop, iris scanner, printer, mouse, finger print scanner etc.

178. It is observed that RIL purchased 2700 UID Kits in June 2013 for a total sum of INR 22.47 Crores and 1150 UID kits in April 2014 worth of INR 13.89 crore from FDSL and capitalized these items in its books of accounts. However, I note from the FAR that no proof of actual delivery of these kits to RIL by FDSL was found by the *Forensic Auditor*.

179. I note from the FAR that the UID kits purchased by RIL in June 2013 were first rented out to Vedavaag for which a Sales Order (and not a lease order) was generated one day prior to purchase of these UID Kits from FDSL even though there were no UID kits available in the inventory of RIL at that point of time. Secondly, I note from the Purchase and Sales order registers of RIL that both these purchase and sales orders pertaining to those 2700 UID kits were modified subsequently on July 01, 2013.

180. Subsequently, the *Company* purchased 1150 UID kits on April 11, 2014 from FDSL for INR 13.89 Crores and rented them out to AS International immediately. Three months after that, these kits were shown to have been sold to AS International on July 31, 2014 for INR 13.77 Crores, i.e. for a price that was lower than the purchase price incurred by the *Company*. The PO (of AS International) corresponding to the aforesaid sale of UID kits to AS International was shared by Ashish Jindal with *Noticee no. 6* who forwarded it to *Noticees no. 3* & *4* vide email dated July 24, 2014.

181. I find it necessary to mention here that the PO of AS International shows AS

International as 'Importer & Exporter of Mobile Phones', which clearly raises doubts on the *bonafide* of the said transaction and begs for an answer to a question as to why an entity which deals with Mobile phones was suddenly seeking UID kits on lease and then after three months buying those kits. In the light of the already established fact that AS International was an entity connected with *Noticee no. 6* who used to forward POs of AS International to RIL and used to receive its tax invoices from RIL, it is incomprehensible as to why the said entity was not purchasing UID kits from FDSL directly (being already connected to it) and was purchasing the same via RIL instead, thereby deliberately bringing one more party into the transaction. The fact that RIL had purchased UID kits only to lease out the same to AS International but just some time after purchasing them from FDSL ultimately sold those kits to AS International only, gets established from Annexure 13 of FAR wherein the narration pertaining to the purchase of 1150 UID kits by RIL from FDSL has been cited in which RIL has mentioned that the same was for its end customer, i.e. AS International.

182. In the meanwhile, RIL sold 2700 kits, earlier leased to Vedavaag, to Connect Residuary Pvt. Ltd. and immediately took back 4650 kits on lease from it (Connect Residuary Pvt. Ltd.). As a part of the said lease transaction, RIL has reportedly paid an amount of INR 65.71 Crore to Connect Residuary Pvt. Ltd. towards lease dues over a four-year period. This shows that RIL, which purchased UID Kits from FDSL at the cost of around INR 94500 per UID Kit, paid an amount of around INR 1,41,500 per UID kit for four-year lease of the very same kits resulting in a much higher pay out from its funds. For taking such kits out on lease, RIL entered into a Master Rental Agreement ('**MRA**') with Connect Residuary Pvt. Ltd. on December 06, 2013.

183. A composite reading of all the afore narrated transactions related UID Kits in the books of accounts of RIL shows that the UID kits have appeared in its books of accounts in three tranches. In the first tranche, a total of 2700 UID kits were

purchased by RIL from FDSL vide bill dated June 13, 2013 which were interestingly rented out to Vedavaag a day before the purchase of those kits, i.e. on June 12, 2013. In the second tranche, 1150 UID kits were purchased from FDSL on April 11, 2014 which were first leased out and then sold to AS International in July 2014. In the third tranche, RIL entered into MRA with Connect Residuary Pvt. Ltd. wherein UID kits were received on rent in four tranches viz. 600 UID kits on January 29, 2014, 1035 UID kits on September 29, 2014, 315 UID kits on October 20, 2014 and finally 2700 UID kits on March 31, 2015. In the meanwhile, RIL retrieved 2700 UID kits from Vedavaag and sold them to Connect Residuary Pvt. Ltd. on February 27, 2014.

184. I also find that three emails from *Noticee no. 6* are available on record. In the first email dated May 06, 2014, *Noticee no. 6* has intimated *Noticees no. 3* and *4* about deployment status of 600 UID kits. In the second email dated June 13, 2014, *Noticee no. 6* has intimated Smriti Pandey and *Noticees no. 3* & *4* about deployment status of 2624 UID kits. In the third email dated November 27, 2014, *Noticee no. 6* has intimated Smriti Pandey about deployment status of 1350 UID kits which appear to be received by RIL on lease from Connect Residuary Pvt. Ltd. in second and third instalments referred to above. It clearly implies that the aforesaid UID kits were in possession of *Noticee no. 6* at that time even though there is no reference of any selling or leasing of these kits to him or FDSL. Be this as it may, the records of incoming and outgoing of the UID kits during the relevant period as found in FAR, have been tabulated below for better factual appreciation:

Table 11: Details of incoming and outgoing UID Kits in the Books of Accounts of RIL

Incoming UID Kits			Outgoing UID Kits		
Counterparty	Date	No. of kits	Counterparty	Date	No. of kits
FDSL	13.06.2013	2700	Vedavaag	12.06.2013	2700

FDSL	11.04.2014	1150	AS International	31.07.2014	1150
Connect	29.01.2014	600	FDSL	06.05.2014	600
Connect	29.09.2014	1035	FDSL	21.11.2014	1350
Connect	20.10.2014	315			
Connect	31.03.2015	2700	No details available		

Apart from the aforesaid records, I find that although the earlier mentioned email dated June 13, 2014 of *Noticee no. 6* indicated deployment status of 2624 kits to Smriti Pandey, there is no material available on records to trace out the origin of those 2624 kits. In fact, none of the *Noticees* could explain the origin of those 2624 UID kits. Under these constraining circumstances and in the absence of any other explanation furnished by any of the *Noticees*, the above data regarding UID kits leads to the only possible inference that these 2624 UID kits could be part of those first tranche of 2700 kits that were leased out to Vedavaag which at some later date, somehow would have landed in the hands of *Noticee no. 6*. In fact, other than emails of *Noticee no. 6*, there is no other evidence on record to suggest if any UID kit was deployed by FDSL at anyplace mentioned by *Noticee no. 6* in his emails. At the same time, there is no evidence of deployment of 2700 UID kits which were received by RIL from Connect Residuary Pvt. Ltd. only in March, 2015.

185. I also note that the sale value of 1150 kits to AS international was INR 13.77 Crore in July 2014, making per kit priced in the range of INR 1,20,000, whereas the same kind of kits (2700 kits) were sold by RIL to Connect Residuary Pvt. Ltd. in December 2013 at a much lower price of INR 9.24 Crores, making per kit priced in the range of INR 35,000. I find no explanation of any of the *Noticees* behind such stark difference in price of UID kits sold to different entities.

186. However, the most astounding feature in the entire UID kits transactions as discussed above, is the failure of the new management of RIL in physically

locating the UID kits after *Noticees no. 1, 3* and *4* were sent on leave. On one side, *Noticee no. 6* has admitted possession of UID kits in his three aforementioned emails dated May 06, 2014, June 13, 2014, and November 27, 2014 respectively, which can lead one to believe that that it was FDSL that was deploying those UID kits on behalf of RIL. On the other side, vide email dated October 12, 2017 i.e. after the wrongdoings in the books of accounts of RIL came to public knowledge, FDSL has referred to the discussion of *Noticee no. 6* with one Ms. Pooja and other team members of RIL in January 2017 wherein FDSL had denied having possession of UID kits. At the same time, there is no evidence of return of any UID kits by FDSL to RIL. Amidst the aforesaid confusion and contradictory stand of FDSL about the physical existence and possession of the UID kits, the commercial logic behind purchase of UID kits by RIL from FDSL only for renting them back to FDSL and its connected entities defeats common sense of business prudence and is also beyond my comprehension.

187. Another unpleasant aspect of the whole UID kits business story as elucidated above, that is detrimental to the interest of the *Company*, is that the *Forensic Auditor* has calculated that a loss of INR 55.21 Crores that has been booked in the books of accounts of RIL due to the afore-discussed UID kits transactions, which has been computed by the *Forensic Auditor* as below:

Table 12: Calculation of losses of RIL due to UID kits transactions

Particular	**Amount (INR in Crores)**
Initial Purchase of UID Kits from FDSL (A)	36.36
Lease dues paid to Connect (B)	65.71
Security Deposit Paid (C)	3.26
Total payments made by RIL (D= A + B + C)	105.33
Sale consideration received from AS International and Connect (E)	(23.01)
Realization value from Vedavaag by providing UID Kits on Rent (F)	(27.11)
Total Cash realization made by RIL (G = E + F)	(50.11)
Net financial loss to RIL (D-G)	55.21

188. I find that there is no mention of any receipt of funds from any entity from the

deployment of UID kits on behalf of RIL except from Vedavaag. In other words, no funds have been received in the books of RIL on account of deployment of 3974 UID kits (600 kits +2624 kits +1350 kits) which *Noticee no. 6* has claimed to have deployed at various places in the three aforementioned emails addressed by him to RIL.

189. *Noticee no. 3* has submitted that the abovementioned calculation is not correct as it doesn't take into account the lease payment received by the *Company* from certain entities. However, he has failed to point out any such lease amount receipts on account of UID kits deployment or to provide any evidence to support his claim that the lease payment was received by the *Company* from certain entities. At the same time, *Noticee no. 6*, who had confirmed deployment of UID kits in his emails, has failed to even contend if he has ever paid any money to RIL for UID kits deployment on behalf of RIL.

190. The aforesaid discussions which throw more and more ambiguities than any clarity about the actual status of the purchase, lease and deployment of those UID kits, constrain me to deduce that the UID kits shown to have been purchased by RIL from FDSL and their deployment through FDSL (who was the seller) or its connected entities, was nothing but a sham in the books of RIL deliberately contrived to show increase in revenue of the *Company*. This deduction gets corroborated by the fact that there is no evidence on record to suggest that RIL had received any orders/requisitions from any entity to supply UID kits so that it can be reasonably inferred that to cater to such purchase orders, RIL had purchased/rented/sold these UID kits. The only requisition for UID kits that is available on record is from Vedavaag (again a connected entity of *Noticee no. 6*), which was fulfilled by RIL by purchasing first tranche of UID kits from FDSL. There is no evidence of any requisition received from any other entity for UID kits after receiving the above noted first tranche UID kits to supply to Vedavaag. In such a scenario, it fits into the scheme of things that after the accounting

irregularities in RIL got exposed through disclosure by RIL, FDSL promptly denied possession of any UID kits in its inventory vide its email dated October 17, 2017; and as a consequence, the new management of RIL was left out in the lurch, to search for those UID kits in its own inventory. As RIL could not find those UID kits in its own inventory, the MRA, signed with Connect Residuary Pvt. Ltd., continued to be extended on two occasions as RIL failed to return the UID kits taken from it on rent. This caused huge loss to RIL in its books.

191. Compounding to the above noted apparently fraudulent irregularities around the transactions pertaining to the UID kits, there is also an allegation that *Noticee no. 2* wrongly had informed the Board of Directors of the *Company* regarding future procurement of UID Kits from Connect Residency Pvt. Ltd., when such procurement had already taken place almost 10 months prior to such intimation made to the Board of Directors of RIL, by way of entering into a MRA with Connect Residuary Pvt. Ltd. on December 06, 2013. In this regard, in the minutes of Board of Directors meeting dated September 25, 2014 the following was noted:

"*the Chairman (Mr. T Takano) informed the Board (consisting of members as below) that RIL intends to procure from 'Connect' Certain Information Technology (IT) and Information Technology (IT) related Assets by way of Operating Expenditure (OPEX) Model instead of Capital Expenditure (CAPEX) Model. The Chairman further informed the Board that OPEX Model is better and beneficial to the RIL as compared to CAPEX Model since it lowers the usage cost for RIL.*"

192. It is pertinent to note here that RIL had already entered into a MRA with Connect Residuary Pvt. Ltd. as early as in December 2013 i.e. ten months before the above mentioned Meeting of Board of Directors was held on September 25, 2014 wherein apparently an *ex-post facto* approval was taken for the said transaction with Connect Residuary Pvt. Ltd. In fact, the first rental schedule with Connect Residuary Pvt. Ltd. had started on January 29, 2014 wherein RIL had paid rent

for taking 600 UID kits on lease.

193. However, nowhere in the board resolution or in the minutes of the said meeting dated September 25, 2014, *Noticee no. 2* is seen to have ever informed to the Board of Directors that the *Company* had already entered into MRA with Connect Residuary Pvt. Ltd. and has already taken some UID Kits on lease from the said entity. This clearly establishes that the lease transactions were misrepresented to the Board of RIL and the fact that the said transaction had already been entered into by the *Company* with Connect Residuary Pvt. Ltd was kept hidden from the Board of Directors and, under such wrongful impression, the Board of Directors of the *Company* unknowingly gave post-dated approval to such a transaction.

194. Further, while there is a mention in the minutes of meeting of Board of Directors about shifting from Capex model to Opex model to lower the usage cost of the *Company*, there is no mention of any financial analysis or data back-up having been presented to the Board of Directors, basis which such a proposal was made. I don't find any deliberations having been done by the Board of Directors of the *Company* on the said matter.

195. In this regard, *Noticee no. 2* has raised the following contentions: -

    195.1. SEBI has failed to prove that the said transaction was not intimated to the Board of Directors prior to September 25, 2014.

    195.2. The said approval was for the addendum to the MRA, which was to be signed on September 25, 2014.

    195.3. Alternatively, *Noticee no. 2* was himself not aware of signing of MRA on December 06, 2013 and he was under the impression that the MRA was going to be signed after approval.

196. I find *Noticee no. 2* has taken three divergent stands which are neither borne out of facts nor are based on any evidence or logic. Since he has not produced any

evidence nor the investigation of SEBI or FAR has been able find any evidence to show that the deal of RIL with Connect Residuary Pvt. Ltd was ever discussed in any of the previous meetings of the Board of Directors of RIL, the question of SEBI failing to prove that the said transaction was not intimated to the Board prior to September 25, 2014, does not arise. Similarly, no evidence has been presented to me to prove that the approval that was sought from the Board on September 25, 2014 was for signing of an addendum to the MRA already signed nor a copy of the said addendum has been placed before me to lend any credibility to this claim of *Noticee no. 2*. Finally, the alternative plea taken by *Noticee no. 2* to claim that was himself not aware of signing of MRA on December 06, 2013 and he was under the impression that the MRA was going to be signed after approval (of Board of Directors) again does not have feet to stand in the absence of any evidence, and rather exposes desperate bid by *Noticee no. 2* to wriggle himself out of the allegation of keeping the Board of Directors of the *Company* in the dark about such an important deal for 10 months without any reasons whatsoever. *Noticee no. 2*, being a MD of the *Company* at that point of time and privy to all the proceedings in the Board meetings and all the goings-on in the management of the *Company*, is duty bound to controvert the above allegation by producing evidence either in the form of the minutes of the meeting or agenda that was circulated to the board members, instead of shifting his onus on to SEBI to show the alleged concealment of information from the knowledge of the Board of the *Company*. Under the circumstances, the plea of the *Noticee no. 2* is not tenable as any assertion of having made full and correct disclosure to Board of Directors is required to be proved through positive and cogent evidence, which the *Noticee no. 2* has failed to produce and instead, by arguing in negative form, *Noticee no. 2* has attempted to transfer his own Burden of Proof upon SEBI and skilfully attempted to evade his liability to defend himself against the violation as alleged in the SCN.

197. While the case of SEBI is well supported by minutes of Board of Directors' meeting dated September 25, 2014, showing the absence of any information of past intimation to Board of Directors regarding agreement with Connect Residuary Pvt. Ltd., *Noticee no. 2*, instead of introducing evidence to the contrary, has made just a bald negative assertion without any supporting evidence. Given the fact that he was the MD and CEO of the *Company* at that time, the liability falls on him to establish that the proper provisions of law were followed in taking approval of Board of Directors regarding MRA signed with Connect Residuary Pvt. Ltd. However, in the facts of the present matter, it is not surprising that the then MD and CEO, rather than attempting to contradict SEBI's case on the basis of evidence, is arguing using just negative assertion sans any evidence. This leads me to conclude that no such communication was made by him prior to September 25, 2014 to the Board of Directors of the *Company* because, had such information been submitted to the Board of Directors, the same would have been available with *Noticee no. 2* to present before me in his defense. Moreover, *Noticees no. 1* & *3* were also present in the said Board of Directors meeting, but neither of them has contended that any such discussion about signing a MRA with Connect Residuary Pvt. Ltd had taken place in any of the prior meetings or finds mention in the minutes of the meeting held on September 25, 2014.

198. All these facts and discussions above now unequivocally establish that the Board of Directors of the *Company* was intimated for the first time about entering into lease agreement with Connect Residuary Pvt. Ltd. on September 25, 2014 by misrepresenting that the *Company* will sign an MRA with Connect Residuary Pvt. Ltd. to hold UID Kits under OPEX Model rather than CAPEX Model after receiving approval of Board of Directors while in reality, the said MRA had already been signed 10 months ago. Under the circumstances, for a backdated ratification of a decision, already taken by the management 10 months ago, approval was taken from the Board of Directors of the *Company* without even

intimating them that the ratification being done by them was back dated in nature.

199. At the end of the deliberations and my observations about the entire gamut of transactions involving the UID kits that were shown to be transferred in the books of RIL, from FDSL to other entities connected to *Noticee no. 6* through RIL whose physical whereabouts were also not known to the new management of the *Company* when FDSL denied to be in possession of these kits post the disclosure of financial irregularities in RIL, in my view the whole UID kits transaction was rather part of a larger scheme conceived by the old Management of the *Company* to indulge in circular transactions wherein, majority of the UID kits had originated from FDSL (which were purchased by RIL) and ultimately landed back in the hands of FDSL. These transactions once again speak for themselves to be another attempt to fabricate the books of accounts of the *Company* to show inflated revenue so as to show better picture of its operations, thereby inducing investors to invest in its shares. As already established above, the aforesaid manipulative act on the part of the *Company* and its management to inflate the financial results by fraudulent means amounts to gross violation of provisions of Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with Regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

200. An allegation has been made against *Noticee no. 3* that he being the CFO of RIL did not allow one essential clause related to 'automatic termination of agreement' to be added in the MRA despite the same being suggested by legal team as well as by the Company Secretary of RIL. Due to this exclusion, the MRA got automatically renewed for 2 more years leading to a loss of INR 29.57 Crores to RIL.

201. In this regard, *Noticee no. 3* has made three fold submissions. Firstly, he has submitted that he had no role in the signing of the agreement and it was sent to him only for information. Secondly, he was not the Key Managerial Person of

RIL at that time, therefore was having no influence in making such changes, even if he wanted to. Thirdly, the agreement was signed by the same Company Secretary who had suggested those changes. Therefore, if the Company Secretary was not in agreement with signing that agreement without those additional clause, he would have noted his dissent somewhere. However, there is no place where such dissent is noted.

202. I note from the emails available on record that *Noticee no. 3* was instrumental in discussions with Connect Residuary Pvt. Ltd. regarding transactions related to UID Kits. He was either directly involved in the said emails or was marked a copy of all those emails. Therefore, his first and second submissions are not correct. Thirdly, while the agreement was signed by the Company Secretary of RIL, the same was done by him in his official capacity, but he had raised the afore-stated objection, which was ignored/rejected by *Noticee no. 3*. Therefore, once a suggestion/objection is rejected by persons like *Noticee no. 3* who were practically in control of the transactions, I find no reason for a subordinate official to raise the same objection every time the matter comes to him and in discharge of his official duty he would sign the document after recording his objection which he apparently did.

203. In any case, the fact remains that the MRA with Connect Residuary Pvt. Ltd. got extended from 2016 onwards. While only on one occasion *Noticee no. 3* was in a position to stop such extension, there is nothing to suggest if the *Company* intended the agreement to come to an end on that occasion, but the agreement got extended on two different occasions even after *Noticee no. 3* had left the *Company*. I don't find any evidence to pronounce that the above noted exclusion of the suggested additional clause of non-automatic renewal was deliberately done to make the *Company* suffer the aforementioned losses. The renewal of the said agreement was rather due to failure of RIL to locate the UID kits in its inventory, an unfortunate event elaborately discussed earlier in this order. At the same time,

there is no evidence on record that *Noticee no. 3* had any direct role in such two extensions of agreement. In the light of all these facts, without attributing any fraudulent motive, it can at best be said that *Noticee no. 3* failed to exercise due diligence while approving the said MRA.

Vendor Financing and Letter of Credit to FDSL

204. It is observed during the forensic audit that short term finance facilities were arranged by RIL for its vendors through two banks viz. HSBC Bank Limited and Bank of America NA in terms of which these banks had agreed to finance the vendors of RIL upto the limit agreed upon in the separate agreements signed between the *Company* and the two Banks respectively. The said payment was to be done after submission of certain documents including the Invoices generated by these vendors in the name of RIL. In this regard, it is alleged that FDSL was the sole beneficiary of the aforesaid Vendor Financing and Letter of Credit Financing facility against goods and services procured by RIL, which shows that preferential treatment was given to FDSL by RIL.

205. A perusal of detailed list of all the amounts released under the said vendor financing facility, as provided by HSBC Bank Limited and Bank of America, when seen along with the findings given in FAR, shows that the amount of such short term financing was increased on a year to year basis from FY 2013-14 to FY 2015-16 and the same was subsequently reduced in FY 2016-17, when the accounting fraud was disclosed for the first time. A tabulated record of Short term financing on YoY basis, as found during Forensic Audit, is given as below:

Table 13: Vendor Financing done by Bank of America and HSBC Bank

Financial Year	2013-14	2014-15	2015-16	2016-17	2017-18
Short Term Financing	357.33	501.52	2145.01	1066.03	1295.28

206. I note from the board resolution dated August 13, 2013 that Board of Directors

of the *Company* had approved the application for availing Credit facilities viz. 'Limit of Credit' to be availed from HSBC Bank and Bank of America. The Board of Directors of the *Company* also framed two separate sets of authorized employees to sign any of the documents required to be signed to avail such facility. It is noticed that at least one employee for each set was required to sign those documents on behalf of the *Company* for final approval in this regard. The details of such authorised employees are as under:

Set A: Mr. Tetsuya Takano or Mr. A T Rajan

Set B: Mr. Manoj Kumar, Mr. Arvind Singhal or Mr. Rajesh Kumar Sood

In line with the above-mentioned resolution passed by its Board of Directors, the *Company* obtained vendor financing facility and Letter of Credit Financing Facility from Bank of America and HSBC Bank.

207. Under such a facility, a vendor used to get finance on behalf of contracting company upon showing certain documents to the bank (as per the requirements of the bank) and upon satisfaction, the bank either used to release funds to such vendor (vendor financing) or issues a letter of credit to such vendor which it could use in some other transactions as the said letter of credit guarantees payment of such funds by bank upon request of anyone holding such letter of credit. Such facility is a kind of loan wherein the cost of such facilities i.e. interest on such finance is borne by the company which has obtained the said facility from bank on behalf of its vendors.

208. Putting the abovementioned concept in the present matter, I find that two separate lists of all the invoices have been made available to *Forensic Auditor* wherein vendor financing was provided by HSBC Bank Limited and Bank of America respectively. A perusal of the said lists shows that all such vendor financing facilities were provided to FDSL only. In order to avail such facility, FDSL used to submit the purchase invoices generated by it against RIL to the

said two Banks which used to release either the funds or the Letter of Credit equivalent to the amount payable by RIL to FDSL against such purchase invoices. I have already mentioned earlier that *Noticee no. 6* used to generate fraudulent purchase invoices for submission to RIL by issuing fictitious orders in the names of his connected entities. In this regard, I have come across certain cases highlighted by the *Forensic Auditor* wherein FDSL was found to be supplying items on behalf of RIL to these entities connected with *Noticee no. 6*. These receipts were then being used by FDSL to raise funds from both Bank of America and HSBC Bank and the said funds were later on used in day to day operations of FDSL.

209. It is pertinent to note that RIL made payment to FDSL through vendor financing arrangements with Bank of America and HSBC Bank amounting to a total of INR 244 Crores and INR 311 Crores respectively during FY 2014-15 & FY 2015-16. The *Noticees no. 1 to 6* have not disputed the above facts that such vendor financing arrangements were entered into with the aforesaid two Banks and the amounts availed by FDSL under the above arrangement have also not been denied.

210. While it has been contended that no harm has been caused to RIL due to this facility, I cannot lose sight of the fact that RIL, being a listed company, used its own creditworthiness to avail funds in the form of vendor financing from Bank of America and HSBC Bank and benefitted FDSL by facilitating it to draw huge sums of money from these two Banks by riding on the creditworthiness of RIL. The said funds were used solely by FDSL in exclusion to all other vendors. Being a listed company, it had its primary responsibility towards its shareholders and RIL was required to not only act in furtherance of the interest of its shareholders but also to refrain from such acts which may not appear to be strictly prejudicial but were certainly not beneficial to its shareholders' interest especially when nothing has been brought on record to show how entering into such

arrangements with the Banks to enable its vendors to avail such facilities were in the interest of the *Company* and its shareholders. Further, when the above arrangements are seen in the light of allegations made in the SCN about the unfair and fraudulent acts of the *Noticees no. 1 to 6* in inflating the *Company*'s balance sheet with the aid of FDSL and other entities having connection with *Noticee no. 6*, it leaves no doubt in my mind that the said facility was obtained by RIL for the benefit of FDSL only and in this process, it has put its own creditworthiness and reputation at stake. Although it was projected to the shareholders and investors of the *Company* that the said credit facility was meant for the benefit of RIL, however, no such benefit that purportedly accrued to it by engaging in such act has been brought on record. In these circumstances, it is clear that the interest amounts that accrued on such short term credit facility extended practically exclusively to FDSL, had to be paid by RIL whereas FDSL reaped all the pecuniary benefits out of such a facility extended to it on a platter by RIL.

211. It is further observed in this regard that some of the *Noticees* have claimed that the aforesaid facility was given to FDSL in order to improve working capital flow of RIL since, such short term credit facility was given to FDSL *in lieu of* longer credit cycle provided to RIL by it. The *Noticees* also submitted that the said facility cannot be termed as vendor financing as in commercial terms, vendor financing means something else. In lieu of such credit facility, FDSL was giving a credit cycle upto 12 months to RIL as compared to normally available 3 months' cycle from other vendors.

212. However, contrary to the aforesaid explanation offered by the *Noticees* which may sound appealing on its face value, it is a fact that the aforesaid facility was being given only to FDSL in exclusion of all other vendors of RIL, *prima facie* because of the undisputable fact that all other vendors were nothing but mule entities functioning under the control of *Noticee no. 6*. As a consequence, by virtue of enjoying such exclusive facilities, as I understand, the free cash flows of FDSL

had increased substantially at the cost of RIL (who had given this facility to FDSL) as FDSL kept on receiving funds from the above noted two Banks as soon as the invoices were raised, leaving it for RIL to bear the cost in terms of interest burden on those remittances to FDSL by the Banks. As a further collateral benefit to FDSL, one can easily hold that with such improved free cash flows in its business, FDSL would have further been benefitted for getting its shares listed on NSE by showing impressive financial position over the course of time, as free cash flow is one of the most significant indicators of sound financial health of a company that aids in an investor's decision making process regarding investment in a particular scrip. I also find it relevant to mention here that if such a short term credit facility extended to vendors was so beneficial to the *Company* in terms of longer credit cycle as is being claimed by the *Noticees*, there is no reason as to why such facility was not provided to any other vendor of RIL (other than FDSL) to further rationalise its working capital needs or why no other vendor came forward to utilize such facility.

213. It is relevant to mention here that the list provided by HSBC Bank Ltd. also mentions list of projects for which the bills were raised by FDSL to RIL. In the said list, it is clearly mentioned that bills, raised in the name of Future Human Development Limited and Rudra Enterprises, were also financed by these banks to FDSL under the said vendor financing facility.

214. I find that Future Human Development Limited was one of the entities whose POs were forwarded by Ashish Jindal to *Noticee no. 6* who forwarded them to RIL. An analysis of the said POs show that the TIN number of Future Human Development Limited mentioned on those POs shows no registration against it in www.tinsys.com, thereby clearly establishing that the said TIN number is not correct and genuine. Further, while the MCA records suggest that Future Human Development Limited was part of now distressed Future Group promoted by Mr. Kishore Biyani, the said entity was not available on the address mentioned

on the bills available in the records of RIL. This leads to a singular conclusion that fake bills were prepared in the name of Future Human Development Limited by forging the TIN Number and Address of the said entity.

215. The second entity in whose name bills were raised by FDSL and later financed by the two aforementioned Banks was Rudra Enterprises. As it has already been established earlier, Rudra Enterprises was an entity connected with *Noticee no. 6* during the investigation period who used to create fake transactions in the name of Rudra Enterprises to inflate the books of accounts of RIL. This fact, when seen in conjuncture with the aforementioned observations regarding fake bills prepared in the name of Future Human Development Limited, clearly establishes that FDSL and RIL were hand in gloves in using vendor financing facility provided by HSBC Bank Limited to RIL, for raising funds by using fictitious sales to connected and fictitious entities.

216. The aforesaid discussions and my observations on how RIL and FDSL were abusing the vendor financing facility against fake and fictitious sales, I am of the view that this facility was more of a *quid pro quo* between the old management of the *Company* and *Noticee no. 6* wherein *Noticee no. 6* was providing POs in the names of various shell entities to the *Company* to whom the *Company* could show fictitious sales, which was helping it in showing inflated revenue and possibly artificially inflated profit as well, and in lieu of that favour, the *Company* provided FDSL vendor financing facility to improve its cash flow (and took the interest burden upon itself) which in turn helped FDSL in getting its shares listed on NSE Emerge platform.

Early recognition of certain sales orders in Tally as compared to MeraCRM

217. It is observed during forensic audit that there were certain discrepancies observed in the data management with respect to Tally and MeraCRM software wherein such entries were made first in Tally, mostly at the end of the month, while the

corresponding Order Sales Forms for such entries were generated in MeraCRM after the end of the month i.e. in the initial days of next month. On this basis, it is alleged that such entries, where dates were not matching between Tally and MeraCRM records, were fake entries created to inflate the books of accounts and the effect of the same also got reflected in the year end results and interim results. It is further alleged in the FAR that in 31 cases amounting to INR 489 Crores, the respective sales were booked in the Tally prior to entry of the Order Sales Forms entered in MeraCRM were of a later date.

218. In this regard, it is relevant to mention here that RIL had developed an internal software called MeraCRM to streamline the generation of various orders and their proper tracking, as the old Tally software was lacking in many aspects. It is stated that globally Ricoh Group used 'Advance' software, but in India, MeraCRM was developed in terms of needs of Indian company viz. RIL.

219. I note from the submissions of the *Noticees* that their 'Advance' software was deficient in adequate features for dealing with the transactions of their IT Services vertical of business and to deal with such a challenge, MeraCRM was developed by RIL as an in-house product. However, MeraCRM was under trial during 2015-16 and it was being used only to keep MIS records of all the sales entries. The sales work was being done in Tally Software only. However, Tally software had its own limitations in keeping track of orders and in creation of MIS. Therefore, a Standard Operating Procedure was created for IT team to develop MeraCRM on its lines. The said work flow was supposed to be followed when MeraCRM would have become fully functional. During such trial, MeraCRM was being tested to sort out the programming issues with day to day use of functions. Therefore, it was used only to record Sales entries of the *Company* so as to keep better MIS record than Tally. As its only purpose during the trial was to generate MIS, some of the entries were made at the start of next month since towards the end of the month, the target of the sales team used to be creation of sales record

in Tally software to fulfil all the sales orders that have been received by them in the month. Once the sales team would get free from month end rush, it would record such entries in MeraCRM to prepare MIS.

220. In this regard, I find that all the *Noticees* have made their submissions on the same lines. On a careful examination of their submissions, I find that the *Noticees* have a strong point to make in their favour on this point. I think it doesn't make sense for an entity to double its own workload by simultaneously using two completely different systems to make same entries if the purpose of both the systems is same. If MeraCRM was fully functional, there was no requirement for the *Company* to make the entries in Tally software as MeraCRM was claimed by the *Noticees* to be an advanced software which would have completely eliminated the requirements of Tally. Therefore, I find no reason to hold the entries made in MeraCRM to be fictitious only on the ground that they were made after corresponding entries in Tally and in many cases, such entries were made in MeraCRM in the next month whereas the entries in Tally were made at the end of the previous month. Hence, without prejudice to the all other findings and my observations made in this Order about the fictitious and fraudulent sales and inflated accounts in the previous paragraphs, the aforesaid discrepancies noticed in the entries between MeraCRM and Tally do not in my view, suggest any further adverse implication in the matter.

Connections and roles of Various Noticees

221. I note that the *Noticees no. 1 to 6* have contended that they have committed no fraud nor there was any 'common objective' behind the above said transactions. However, contrary to such a contention which is unsupported by any evidence, I find that round tripping of funds was taking place amongst FDSL, RIL and numerous shell entities connected with *Noticee no. 6* leading to artificial generation of inflated revenue for both RIL and FDSL. It has also been clearly established

that the resources and credit worthiness of RIL were used by FDSL for its benefit and advantages, in exclusion to everyone else through the RITS Partner Program, being a Titanium partner, as well as through vendor financing facility. In this regard, it is beyond one's comprehension as to why a listed company will allow its scarce resources and its credit worthiness to be used by another company (FDSL) to enhance its free cash flows at the cost of the listed company unless there was some implicit *quid pro quo* between them which, as the facts & evidences from the records suggest in this case, strongly appears to be their common intention of fabrication of inflated revenue and related financial statements of RIL in collusion with FDSL & *Noticee no. 6*. Such a collusive effort has not only helped *Noticees 1 to 5* to achieve their aggressive business targets but also have helped them in presenting the *Company*'s financials in a manner to impress the stakeholders in the securities market. Therefore, all the aforesaid facts and observations about the implicit *quid pro quo* between RIL and FDSL *ipso facto* proves a 'common intention' amongst *Noticees no. 1 to 6* to inflate the accounts and financials of the *Company* in a fraudulent manner as depicted in detail in the preceding paragraphs.

222. The effect of the inflated revenue and profits achieved by the *Company* in the manner as discussed above can be very easily understood from the fact that the growth rates of revenues of both RIL and FDSL had registered an unprecedented rise during the period when both these companies were acting in collusion with each other through their managements wherein *Noticees no. 1 to 6* were acting as a team in their scheme to show inflated results. The result of their collusive efforts was also visible in the massive rise in scrip price of RIL as well as in the smooth listing of FDSL on NSE Emerge platform, thus fulfilling the goals of both the managements viz. *Noticees no. 1 to 5* in RIL and *Noticee no. 6* in FDSL.

223. Under the circumstances, I am of the view that the only way the whole fraudulent scheme could have run for such a long period of time was to have *Noticees no. 1*

to *6* joining their hands together to act as one common group in furtherance of the said scheme. In fact, I note from all the records that it was *Noticee no. 6* who was providing resources and fictitious paper entities to *Noticees no. 1 to 5* to inflate the revenue of RIL by showing fictitious transactions in the books of RIL.

224. As already noted in the beginning of this Order, substantial purchases were shown to have been made by various suspected entities connected to *Noticee no. 6* from RIL and none of these entities except for Jindal Infra Solutions Limited could be located at their given addresses which, in corroboration with other facts such as fake TIN number and fake addresses on invoices etc., establish that these entities were mere paper entities without any employee or operation, some of which had shown dramatic upsurge in their revenues during FY 2014-15 and 2015-16. On a holistic appreciation of all the facts and evidences in records which have been discussed at length in earlier paragraphs, it can be safely held that all the aforesaid transactions carried out in the names of various entities connected to *Noticee no. 6* were nothing but paper transactions used as a device to round trip the *Company*'s funds amongst various entities in order to inflate the sales/revenue of RIL and FDSL.

Fraudulent Disclosure of inflated financial results

225. While the *Noticees no. 1 to 6* were engaged in inflating the sales and revenues of RIL (and of FDSL as well), the *Company* was constantly disclosing its financial results replete with such inflated figures arrived at by way of such fictitious transactions under different accounting heads and also by way of round tripping of funds and transactions with FDSL and connected entities, instead of disclosing the actual financial results, thereby, fraudulently creating a positive impression in the minds of the public that the financial health of the *Company* was impressive and the *Company* was growing at an exceptionally high growth rate and with abundant headroom to grow at the same speed. This would naturally provide a

false sense of comfort and assurance to the investors, while at the same time *Noticees no. 1 to 6* were continuously fudging the accounts of the *Company* using the related entities of *Noticee no. 6*.

226. The fact that those fabricated quarterly as well as annual results were forwarded by the *Company* to the exchanges with the approval of *Noticees no. 1 to 3* at different points of time during the investigation period leaves no scope for any doubt regarding their complicity in those fraudulent disclosures.

227. Under the aforesaid circumstances, I find that those wrong disclosures of *Company*'s financial results were acts of dissemination of false and misleading information on BSE. When the same is looked into from the perspective of the larger scheme of things, which the *Noticees no. 1 to 5* were ultimately trying to achieve, I am left with no doubt that such misleading disclosures were deliberately made with a fraudulent intent to deceive public shareholders and other investors in the market in order to make these investors believe in those high rate of growth with which the *Company* was visibly moving forward. Therefore, by continuously disclosing false and fabricated financial results, a fraud has been perpetrated in a systematic manner upon the public shareholders and investors of the *Company*.

228. In the light of my aforesaid observations and conclusions about various transactions entered into by the *Company* during the investigation period, I would now deal with individual role of different *Noticees* in carrying out those fraudulent acts in the affairs of RIL.

Manoj Kumar

229. I find that the Sales under RITS Partner Program was directly under control of *Noticee no. 1*. I have also observed earlier that *Noticee no. 4* was the '*Document Owner and Review(er)*' of all the agreements signed with FDSL, Redhex and Vedavaag with respect to their introduction in RITS Partner Program and the same

agreements were approved by *Noticee no. 1*.

230. Further, as already mentioned above, RIL used Tally software in order to record the transactions pertaining to its IT Services business which *inter-alia* consisted of RITS Partner Program also. Such accounting records maintained in Tally didn't contain even the basic information of vendors or customers (such as contact person name, PAN, Address etc.) which does not behove of a good accounting practice, that too in a listed company. Such a fundamental deficiency in the accounting records was never red-flagged by *Noticee no. 1* even though he himself is a qualified Chartered Accountant.

231. It has been submitted by *Noticee no. 6* that all the purchases by RIL from FDSL and its connected entities viz. Redhex and Vedavaag and corresponding sales thereof were being made under RITS Partner Program which was a part of the IT Services Vertical of the *Company*. The said submission of *Noticee no. 6* has remained undisputed in the present proceedings. In this regard, it is also an undisputed fact that the said RITS Partner Program and IT Services vertical were operating under the leadership of *Noticee no. 1*. It has been sufficiently established that the fraudulent transactions carried out under RITS Partner Program as discussed at length earlier were done with the intention of inflating the turnover of RIL, so as to fraudulently paint a rosy picture of the affairs of RIL and to demonstrate accelerated business growth before the promoters and other shareholders of the *Company*.

232. In furtherance of this fraudulent scheme, sales were made to shell entities that were not even found at the addresses mentioned on RIL's invoices nor the addresses of these entities could be located in any public domain. None of the *Noticees* including the *Noticee no. 1* who was in charge of finance/accounts of the *Company* first, in his capacity as the Chief Finance Officer of the *Company* in FY 2013-14 and then as the Executive Vice President & Chief Executive Officer

during FY 2014-15 and finally as Managing Director & Chief Executive Officer of the *Company* during FY 2015-16 could produce the latest contact addresses of any of these entities either before the *Forensic Auditor* or before the investigating officer of SEBI. The fact that these were fictitious sales entries made in favour of fictitious entities gets further reinforced when the same is viewed in combination with the act of writing-off of balances outstanding against some of these entities in FY 2016-17, as per the descriptions given in Table 5 cited above.

233. Further, as discussed above, RIL had created vendor financing arrangements with Bank of America & HSBC Bank Limited wherein the sole beneficiary of the said arrangement was FDSL which used this facility to improve its free cash flow at the expense of RIL as the interest liability on such amounts disbursed by the banks to FDSL was being borne by RIL. The fact that no other vendor of RIL was provided with similar kind of facilities further strongly suggests toward preferential treatment given by RIL to FDSL. It may be noted that vide Board Resolution dated August 13, 2013, *Noticee no. 1* was one of the employees authorized to avail credit facility from the banks. In addition to that, I find that *Noticee no. 1* had signed on behalf of RIL on the Master Buyer Agreement with HSBC Bank Limited, executed on October 13, 2015 which facilitated the said vendor financing arrangement to FDSL.

234. Given the fact that *Noticee no. 1* was the Chief Financial Officer of the *Company* and later its Managing Director, it is impossible to reckon that *Noticee no. 1* was not aware of FDSL using huge financing facilities in the name of RIL, for which RIL was paying the cost (interest on such financing facilities). This gets proved from the list of vendor bills financed by HSBC Bank and Bank of America in terms of the aforesaid agreements entered into with RIL since the entire financing from the above noted two Banks was arranged for one vendor only viz. FDSL. At the same time, it is not a mere coincidence that some of the purchase bills were made in the names of entities connected with *Noticee no. 6* such as Rudra

Enterprises and Future Human Development Limited FDSL availed the said financing facility on those purchase bills also.

235. In view of all the above, I am convinced that such a long running fraudulent scheme could not have been sustained but for the active support and collusion of *Noticee no. 1*, who as the CFO of RIL during FY 2012-13 & FY 2013-14, as the EVP & CEO during FY 2014-15 and as the MD & CEO during FY 2015-16, is clearly seen to have actively allowed such nefarious acts of fictitious purchases and sales to continue unabatedly with untraceable paper entities connected with *Noticee no. 6*, that resulted in misreporting of the financial statements of RIL from FY 2012-13 to FY 2015-16. *Noticee no. 1*, as a Chartered Accountant, joined the *Company* at the lowest level and ultimately became the Managing Director of the *Company* within a period of 20 years, before being sent on leave. His consistent rise to higher and higher echelons in the *Company* till the post of MD unquestionably establishes that *Noticee no. 1* was a competent employee who cannot be taken for a ride or conned so easily by others. Therefore, it cannot be a case that a fraudulent scheme was being hatched behind his back by *Noticee no. 6* in collusion with other officials and he could not notice it when in reality, he is the one who had entered into those so called vendor financing arrangements with the Banks to facilitate FDSL to draw huge amounts of money from the aforesaid two Banks and voluntarily thrusted the interest burden of those finances availed by FDSL on the shoulders of the *Company*. It is not the case of *Noticee no. 1* that he is the one who discovered the alleged fraud and left the *Company* immediately to protect himself from the liability of such wrongdoing. It therefore leaves only one plausible conclusion that *Noticee no. 1* was actively involved in the afore-discussed fraudulent scheme for inflating the revenue of the *Company* by fabricating the purchases and sales with those non-traceable conduit entities of *Noticee no. 6* so as to present a rosy picture of the finances of the *Company* before the promoters and shareholders of the *Company*, which ultimately led to a loss of

INR 1123 Crores to the *Company* thereby forcing the promoters to infuse equivalent amount of funds into the *Company* in their desperate attempt to keep the *Company* afloat.

236. The submission of *Noticee no. 1* that he didn't gain anything out of those transactions can be rejected out rightly. In my view, even though there may not be any monetary gain to the *Noticee no. 1*, the fact that *Noticee no. 1* rose to the top of the *Company* in FY 2015-16 riding on the waves of those misleading disclosures about the rapid financial strength of the *Company* is self-evident of the direct benefit that accrued to him by painting such rosy picture in the minds of the promoters as well as the public. Reportedly, he kept on getting full ratings in his annual performance appraisals despite mentioning therein that he had missed some of the targets. Further, during the period when those fraudulent purchases and sales transactions were going on, his salary saw unexceptional leaps rendering him a direct beneficiary of the aforesaid fraudulent scheme. In any case, the SCN does not allege that the funds of the *Company* were siphoned off and ended up in the pockets of one or other person. It is the case of the SCN that the revenue and profits of the *Company* were shown inflated through a series of fabricated purchase and sales transactions involving entities that were connected with *Noticee no. 6*, who was the promoter of FDSL, as well under a fraudulent scheme conceived by him with the *Noticees no. 1 to 5* thereby misleading the public shareholders and investors in the market about the financial affairs of the *Company*. As there is no allegation of siphoning off of funds, the submission of the *Noticee no. 1* that he has not got any benefit is misplaced on facts more so when the *Noticee no. 1* has achieved exponential growth in his career in terms of promotion and salaries & perks. Under the circumstances, it is not tenable to accept that no benefit of any nature has accrued to him as an outcome of the above discussed fraudulent transactions carried in the books of the *Company* during the period when he held high positions in several capacities in the *Company*.

237. Therefore, the disclosure of untrue financial statements, which resulted in misleading the promoters, the shareholders as well as the other investors about the financial performance of the *Company* also resulted in artificial rise in the share price of RIL. In view of all the aforesaid discussions, I hold that *Noticee no. 1* was well aware of the financial statements of the *Company* being fraudulent and untrue in nature. Despite knowing that the financial statements prepared on the basis of those fabricated inflated entries in the books of accounts, *Noticee no. 1* continuously approved and allowed such inflated financial results to be disclosed to the investors at BSE, thereby defrauding them to believe in such rosy picture being painted before them. By doing so, I hold that *Noticee no. 1* has violated the provisions of Sections 12A(a), 12A(b) and 12A(c) of SEBI Act read with Regulations 3 (b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations. Further, by signing those fabricated and inflated results in various capacities, he has authorized these results to be disclosed on BSE website despite knowing them to be false. By doing so, he has also violated the provisions of clause 49(V) read with 41(II)(a) of the erstwhile Equity Listing Agreement.

238. It is alleged that *Noticee no. 1* had a role in appointment of *Noticee no. 7* as the statutory auditor of the *Company* in 2001 when he was working in the Finance Department of the *Company*. However, in my view appointment of a statutory auditor is a big decision for a company, moreso for a company having a foreign pedigree, since in many cases, there is a need to get the said decision approved from the foreign promoter also. I find that at the time of appointment of *Noticee no. 7* as the statutory auditor of the *Company*, *Noticee no. 1* was working at a junior position which makes it unlikely for him to influence such a decision of the *Company* at that time. Secondly, there is no allegation that proper process prescribed under Companies Act, 1956 was not followed in the appointment of *Noticee no. 7* as the statutory auditor of the *Company*. Thirdly, while there is an admission that he had recommended the name of *Noticee no. 7*, there is no

evidence that he was influential in selection of *Noticee no. 7* as the Statutory Auditor of the *Company*. Finally, connecting the present day fraud with an appointment that was done more than 10 years back would be far-fetched an inference to draw. Moreover, since the appointment of *Noticee no. 7* itself was not fraudulent at that point of time, I do not see any possible collusion of *Noticee no. 1* in the appointment of *Noticee no. 7* as the Statutory Auditor of the *Company* in 2001.

T. Takano

239. I find that *Noticee no. 2* was the Managing Director & Chief Executive Officer of the *Company* from the start of investigation period till March 31, 2015. The said period occupies the major portion of the Investigation Period in the present matter during which the entire fraudulent scheme as discussed above was concocted leading the inflated revenue and other financial aspects in the books of accounts of the *Company*. It appears to be too big a coincidence that FDSL was incorporated during this period only to start business transactions with RIL in the afore discussed fraudulent manner to book fictitious purchases and sales in the books of RIL, and most of these *malafide* transactions were executed during the tenure of *Noticee no. 2* as the MD & CEO of the *Company*.

240. I find that, prior to *Noticee no. 1* took over as MD & CEO of RIL on April 01, 2015 and barely six months before the exposure of accounting irregularities in the *Company* by the new auditor i.e. BSR, it was *Noticee no. 2* who had been the MD & CEO of the *Company* for four preceding financial years during which he was in full control and charge of the functioning of the *Company*. It was under his leadership that the *Company* grew into new revenue streams, including IT Services. In such a scenario, I cannot persuade myself to accept that *Noticee no. 2* was unaware of all the wrongdoings that had been happening in the *Company*'s accounts during those period of four years ending with March 31, 2015 and

believe in his contention that it is *Noticee no. 1*, who held the position of MD after him, is responsible for the said scam resulting in an immediate loss of INR 1123 Crores barely within six months of his elevation to the post of MD. I have already established earlier how *Noticee no. 2* had misrepresented the 'Sale and Lease Back Transaction' of UID Kits to the Board of Directors of the *Company* in its meeting held on September 25, 2014 and made them approve MRA dated December 06, 2013 with retrospective effect without the knowledge of the Board. For the reasons recorded in detail earlier in this order, it has already been established that he was very much aware of those fictitious sale as well as leasing transactions between RIL and other entities connected with *Noticee no. 6* involving UID kits worth of crore of rupees most of which were transacted in a circular manner amongst those entities. It is but natural to expect that any person of a stature of MD & CEO, who is briefing Board of Directors about the benefit of OPEX over CAPEX would first himself understand the benefit of such plan. Even presuming for a moment that he was personally not involved in those circular or round tripping transactions pertaining to procurement and leasing/sale of UID kits, any person of reasonable prudence of a rank of MD & CEO would certainly find a number of red flags in those high value transactions which he would have raised before his officials during his business discussions with them. The fact that *Noticee no. 2* during his long tenure, having himself launched this new line of business, has never raised for once, any question about such round tripping of UID kits between RIL and other dubious entities, clearly establishes his complicity in the said fraudulent transactions.

241. It can also not be overlooked that *Noticee no. 2* was one of the authorized signatories to facilitate vendor credit facility from the banks as resolved vide Board meeting dated August 13, 2013, which led to preferential treatment to FDSL through vendor financing.

242. In this regard, *Noticee no. 2* has submitted that he had not signed a single document

with respect to the said transactions. While I don't find any document from the records before me, signed by him in respect to the aforementioned scheme, the same will not disprove the fact that being part of the said Board Meeting and as the MD & CEO of the *Company*, he was very much a party to the approval of the said scheme which benefited hugely FDSL. Given the fact that a huge benefit to the tune of more than INR 500 Crores was given to FDSL under the said scheme, no one in his right sense will ever accept that such a huge undue benefit was being enjoyed continuously for 2 years by one single vendor, i.e. FDSL at the cost of RIL without the knowledge of *Noticee no. 2* who was at the helm of business of the *Company* especially when, such an arrangement entailed huge interest burden on and cash outflow from the *Company*.

243. In view of the above, it is extremely difficult even to posit that *Noticee no. 2*, as a MD and CEO of the *Company*, could have been completely unaware of and had no inkling of the fund transactions in crores of rupees that was taking place behind his back amongst RIL, FDSL and the connected entities of *Noticee no. 6*; more so when it is he, who had certified the authenticity of financial statements for FYs 2011-12, 2012-13, 2013-14 and 2014-15. It is equally difficult to accept that, at the time of or prior to signing of all the Financial Results during his long tenure of four years, *Noticee no. 2* did not even once attempt to look into the dealings of the *Company* with its largest vendor while examining the veracity of those financial results.

244. The fact that such a fraudulent scheme was going on right under his nose for such a long time and no red flag was raised by him at any point of time can only lead to a deduction that he was well aware of all those transactions the scheme. His involvement further stands vindicated from the fact that he had misled the Board of Directors of the *Company* about signing of MRA with Connect Residuary Pvt. Ltd. on December 06, 2013 and misled the Board to give a post-dated approval to the same. It is also not a coincidence that the accounting fraud in the

Company started only after he joined as MD & CEO of the *Company* and pushed for himself a hefty target of tripling the revenue of the *Company* within three-year time frame.

245. Further, it appears from the records that the *Noticee no. 2* kept on giving full performance ratings to his the then deputy viz. *Noticee no. 1* in his performance review despite the fact that *Noticee no. 1* had himself mentioned about missing certain targets in his self-evaluation. In fact, *Noticee no. 2* had recommended the name of *Noticee no. 1* for the post of the next MD of the *Company* in his performance review of Second Half of Financial Year 2013-14. In the light of this, it cannot be presumed that *Noticee no. 2* had no role to play in appointment of his understudy i.e. *Noticee no. 1* as MD of the *Company* during the latter part of the Investigation Period.

246. The *Noticee no. 2* has attempted to evade the allegations by making two fold submissions. Firstly, he states that there is no evidence of his collusion in the wrongdoing as SEBI has failed to establish any contract between the wrongdoing entities, which is *sine qua non* for proving fraud. Secondly, his bank accounts have not been examined during the course of investigation which would have proved that he has not gained anything monetarily in the course of the fraud.

247. However, the *Noticee no. 2* should have this common sense that entities which commit to fraudulent transactions in a collusive manner, as has been done in the present matter, would not enter into any agreement in writing. The fact of their implicit contract or acting in concert has to be culled out from the circumstances surroundings the events including the very actions of the entities involved in such transactions. In the present matter, the following undisputed fact findings that have come to light are worth noticing:

- That the whole fraudulent scheme started during the tenure of *Noticee no. 2*,
- That his tenure as MD of the *Company* coincided with a large part of

Investigation Period,

- That he pushed all other employees of the *Company* to help it grow at an unimaginatively high growth rate of 300% within a period of 3 years,
- That he was party to approval of vendor financing scheme which benefitted FDSL to the extent of hundreds of crores of Rupees,
- That he was responsible in misguiding the Board of Directors about signing of MRA with Connect Residuary Pvt. Ltd. for which he in effect, deceitfully obtained Board's ex-post facto approval;
- That he kept on awarding full marks to some of the other *Noticees* working as his sub-ordinates despite he himself recording at places that they couldn't achieve their targets; and
- That after the fraudulent scheme was disclosed, in part due to objections of BSR, no action has been taken against any of the persons in the management of the *Company* except for sending *Noticees no. 1, 3* and *4* on leave and later dismissing them from *Company*'s roll. There is no evidence of *Noticee no. 2* taking any action against the aforementioned three *Noticees* for fraudulently making him sign fabricated financial results and documents if he claims that he was innocent and ignorant about all those dubious financial transactions. Similarly, while the *Company* had filed a complaint against *Noticees no. 1, 3* and *4* with EOW, New Delhi, the said complaint was closed by EOW on account of non-cooperation on the part of the *Company* itself.

All the aforesaid factors lead to a compelling inference that the *Noticee no. 2* in his desperate drive to achieve rapid inorganic growth in his own career, got the *Company* entangled in such fabricated transactions as discussed in detail earlier in this order in collusion with *Noticee no. 6* and other *Noticees*. The same is visible from his subsequent promotion as Regional Head of Singapore Region in Ricoh group in the starting of FY 2015-16.

248. It is also the case of the *Noticee no. 2* that his bank account statements were not examined during the course of investigation. I find it important to mention here that the present matter does not allege siphoning of funds or misappropriation of funds for personal gains by any *Noticee* as the SCN primarily allege concealment of material events and manipulations of books of account to show false and misleading information to the shareholders. The aim of the *Noticees* in carrying out such fraudulent transactions was apparently not only to project artificial inorganic growth in the revenue of the *Company* but also to grow fast inorganically in their own career as well. The same is visible in case of *Noticee no. 2* who was promoted to Regional Head of Singapore Region in Ricoh group. At the same time, I find that *Noticee no. 2* had joined the *Company* on April 01, 2011 and received a total remuneration of INR 52,19,054 in that year and when he left the *Company* in the end of FY 2014-15, his annual remuneration was INR 1,15,10,964. This shows that the salary of *Noticee no. 2* increased to more than twice within a period of 4 years. Therefore, the submission of *Noticee no. 2* of not receiving any personal benefit is also in effect, not a tenable assertion on the part of *Noticee no. 2* as the same is devoid of any merit. In the end, I can observe that *Noticee no. 2* was well within his rights to tender any document including his bank statements during the course of present proceedings before me, which he would have deemed relevant to defend his case. Despite having such liberty, *Noticee no. 2* did not opt to submit his bank statements before me during the course of present proceedings despite taking a stand that his bank account ought to have been examined by the investigating officer to find evidence about his non-involvement in the alleged fraudulent scheme perpetrated in the books of accounts of the *Company*.

249. I also find that after BSR raised question marks on certain transactions in the books of the *Company*, the Board of Directors of the *Company* first appointed SSKM to conduct forensic audit which was not accepted by BSR due to scope of

the said forensic audit being very limited for BSR to agree to the same. Subsequently, PwC was appointed to investigate into those suspicious transactions. However, I find it surprising that the mandate of PwC was restricted only to the half-year ended September 30, 2015 and not extended to all the years during which *Noticee no. 2* was heading the affairs of the *Company* and during which all those misstatements could have possibly occurred, so that PwC could have gone into the root of those suspected fraudulent transactions. The aforesaid limitation of scope of forensic audit was attempted to be explained on the ground that BSR had raised objection to the financials of only that six months' period. In such a scenario wherein a suspicion has been raised against transactions with a specific entity, it is but natural that any company would try to find all the wrongdoing if any, with that entity during all those years the company had transacted with that entity by giving widest possible mandate to the auditor. However, the restriction of mandate of PwC to only 6 months' period in the name of BSR raising objection on the transaction pertaining to this period only, clearly suggests that the same was nothing but an attempt on the part of the *Company* to protect *Noticee no. 2* and the tenure of four years he had served as MD & CEO of the *Company*, as by then *Noticee no. 2* had already been elevated to and was holding a more senior position in Ricoh Group.

250. Therefore, I am of the view that *Noticee no. 2*, as the MD & CEO of the *Company* during FY 2012-13 to FY 2014-15, had active involvement in committing the fraud of misreporting of the financial statements of RIL during his tenure. Such disclosure of false and inflated financial statements resulted in misleading the promoters and other investors about the financial performance of the *Company* and thereby resulted in manipulation of the share price of RIL. In view of all the above details mentioned in this order, I hold that *Noticee no. 2* was well aware of the financial statements of the *Company* being fraudulent and untrue in nature. Despite knowing that, *Noticee no. 2* continuously approved such inflated financial

results over the period of four years, and disclosed those false and misleading financial statements to the investors by filing the same at BSE, thereby defrauding the gullible investors to believe in the rosy picture about the financial affairs of the *Company* as painted by those false and misleading financial statements thrown at them. These untrue financial statements eventually resulted in misleading the investors about the financial performance of the *Company* and thereby resulted in artificial increase in the share price of RIL. Therefore, I have no doubt in my mind that for all the acts attributable to him as discussed aforesaid, *Noticee no. 2* has violated the provisions of Sections 12A(a), 12A(b) and 12A(c) of SEBI Act read with Regulations 3 (b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations. Further, by signing those fabricated and inflated financial results as the MD of the *Company*, he has caused false information to be published on BSE platform. By doing so, he has also violated clause 49(V) read with 41(II)(a) of the erstwhile Equity Listing Agreement.

Arvind Singhal

251. I find from the FAR that *Noticee no. 3* was elevated to the position of Chief Financial Officer (in short '**CFO**') in Financial Year 2014-15 and as the CFO, he was allegedly responsible for the preparation of financial statements of the *Company* for the years FY 2013-14, 2014-15 and FY 2015-16. In this regard, *Noticee no. 3* has submitted that that he was sent on leave by RIL on March 29, 2016, therefore, he was not responsible for preparation of financial statement of FY 2015-16. While the said submission of *Noticee no. 3* is technically acceptable for the fact that he has not signed the Annual Financial Results of RIL for FY 2015-16, but the same doesn't change the fact that he was responsible for preparation of the quarterly financial statements for at least the first quarter of the year ended June 2015 which was later on found to be fabricated and inflated. In particular, he was also responsible for preparation of financial statements for quarter ended

September 2015, as well as for the half yearly financial statements for half year ended September 2015 which was initially submitted to BSR for approval and it is these half yearly financial statements that evoked suspicion by BSR during the course of their statutory audit of the *Company*, and it was due to objections raised by BSR on the authenticity and credibility of these statements, the said results for half year ending September 2015 were not disclosed on BSE. In any case, it is undisputed fact that he had signed financial statements for FY 2013-14 and FY 2014-15 upon his elevation as CFO of the *Company* which contained those fabricated purchases and sales and inflated revenues as discussed at length in earlier paragraphs of this Order.

252. I note that *Noticees no. 3* and *6* were connected through RNMIT. I find that RNMIT is a company registered on September 30, 2004. It is observed that *Noticee no. 6*, his wife and the wives of *Noticees no. 3* and *4* were the four shareholders and directors of RNMIT at the relevant point of time, wherein the wives of *Noticees no. 3* & *4* were respectively holding 30% shares each, of RNMIT as of the end of Financial Year 2013-14. As per the information furnished in the *Interim Order*, the spouses of *Noticees no. 3* & *4* ceased to be its directors on November 12, 2015, around the time the statutory auditors of Ricoh viz. BSR raised concerns relating to certain transactions of RIL with its vendors and customers. *Noticees no. 3* & *6* were also together in some of the trips along with their families which shows that the connection between *Noticees no. 3* and *6* were not mere professional connections and rather they were connected on personal and family levels also.

253. I find it relevant to mention here that the *Noticee no. 3* has presented himself as a reasonably prudent and intelligent person who is very good in his work, which he has attempted to prove by his elaborate submissions during the course of present proceedings wherein he has claimed that the FAR contains several loopholes. If I proceed to examine the allegation in the light of the loopholes pointed out by

him in the FAR, I would rather at the outset find it difficult to accept that *Noticee no. 3* who rose to the rank of CFO because of his competence was unable to find even a single red-flag about those fabricated high value transactions that were being carried out blatantly and in a regular manner in front of his eyes for a period of at least one and half years till the same were noticed by BSR who could easily smell foul in their very first audit of books of accounts of the *Company*. This would obviously lead me to a compelling conclusion that *Noticee no. 3* was either complicit in the whole scheme or was willingly pushing those red-flags under carpet just to be on the right side of the management and other perpetrators like *Noticee no. 6*. Given the fact already recorded earlier in this order that he as the CFO of the *Company* was being marked copies of a lot of emails being addressed from the side of *Noticee no. 6* therein forwarding third party documents to RIL, it is very much established that he was always kept in the loop and was well aware of the number of entities being run by *Noticee no. 6* to execute those afore discussed concocted transactions to inflate the accounts of RIL. In fact, he himself has allowed his spouse to be part of RNMIT, one of the entities controlled by *Noticee no. 6*. In the light of this, the fact that he didn't take any action to expose the wrongdoing of *Noticee no. 6* clearly establishes that he was very much hand in gloves with the other *Noticees* as part of the whole fraudulent scheme.

254. In view of my aforesaid observations, I find that *Noticee no. 3*, by virtue of holding a position of CFO of RIL for FY 2014-15 & FY 2015-16, had active involvement in committing the fraud of misreporting of the financial statements of RIL during his tenure. The untrue financial statements resulted in misleading the investors about the financial performance of the *Company* and thereby resulted in artificial manipulation of the share prices of RIL. In view of this, I hold that *Noticee no. 3* has violated the provisions of Sections 12A(a), 12A(b) and 12A(c) of SEBI Act read with Regulation 3 (b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP

Regulations. By signing the annual financial statements for FY 2013-15 and 2014-15 as well as all the quarterly financial statements in between including the first quarter of FY 2015-16, I find him to have knowingly published false and fabricated information at the platform of BSE. By doing so, I hold him to have violated the provisions of clause 49(V) read with 41(II)(a) of the Equity Listing Agreement.

255. It has been alleged that he had received various personal benefits from his connection with *Noticee no. 6* which include funds diverted from Ricoh to RNMIT via various entities. In this regard, the *Forensic Auditor* has mentioned that the wife of *Noticee no. 3* had received funds of INR 1 Lakh from RNMIT.

256. In respect to this, *Noticee no. 3* has submitted that his spouse was only a director in RNMIT, but has never derived any direct or indirect benefit from the said company during any time. He has also submitted that his spouse had not authorised, approved or signed any transaction and/or any receipt or payment of any funds to/from RNMIT at any given point of time.

257. The connection of *Noticee no. 3* with *Noticee no. 6* is well established in light of the fact that his wife was on the board of RNMIT with *Noticee no. 6* and she was also a shareholder of the said company. Further, there have been numerous family trips, the records of which are available on file. For example, I find that *Noticees no. 3, 4* and *6* had gone on a Shirdi Trip together with their respective families. The family of *Noticee no. 3* was also scheduled to join the trips to Zurich and Paris. However, their names were removed in the last moment under some pretexts. It is not surprising in the aforesaid context that it was always the *Noticee no. 6* who used to book the tickets for all these trips. In fact, I find an email dated May 26, 2015 from *Noticee no. 6* to *Noticees no. 3* and *4* wherein Business class tickets from Delhi-Dubai-Delhi were booked for *Noticees no. 3* and *4* along with their families. In the scheme of things, it would not be erroneous to presume that these tickets

were also booked by *Noticee no. 6* who then emailed these tickets to *Noticees no. 3* and *4*. The said favours which were undeniably offered by *Noticee no. 6* to *Noticee no. 3*, in the given facts & circumstances of this proceedings can only be held as acts of *quid pro quo* on the part of *Noticee no. 6* towards *Noticee no. 3* in lieu of being allowed by him (*Noticee no. 3*) to continue with those fraudulent and fabricated transactions as part of their pre-conceived fraudulent scheme to generate bogus invoices in the names of these name-lending entities operated by *Noticee no. 6*, thereby resulting into inflated sales and profits of RIL. Further, it was *Noticee no. 3* who, despite being the CFO of the *Company*, allowed FDSL to exclusively enjoy the benefits of vendor financing facility at the cost of the interest of the *Company* and its shareholders.

258. As regards the specific allegation about receipt of amount of INR 1 Lac by his spouse from RNMIT, *Noticee no. 3* has submitted that his wife had paid INR 1 Lac to RNMIT from her bank account, vide cheque no. 132763, credited on 6th February, 2014 in Bank statement of RNMIT, which was returned back to her on March 19, 2014, when she was about to leave RNMIT. In the light of this, I am not inclined to charge him for getting an additional benefit of INR 1 Lakh through his wife from RNMIT but this transaction would certainly stand testimony to the fact of extreme proximity between *Noticee no. 3* and *Noticee no. 6* both at professional and personal level which facilitated the implementation of the afore discussed fraudulent scheme in the accounts of RIL.

Anil Saini

259. I note from the submissions of *Noticee no. 4* that he was hired by RIL in 2008 and placed on its IT team. Subsequently, upon acquisition of Momentum Infocare Private Limited, he was tasked with growing the IT Services vertical of the *Company* and since then, he was involved in the said line of business of RIL.

260. Corroborating the same, the material available on record establishes that *Noticee*

no. 4 was IT Services business head of the *Company* during FY 2013-14 & FY 2014-15 and thereafter was promoted as Senior Vice President and Chief Operating Officer of the *Company* from April 01, 2015 and thereon he took responsibility for the Business Management Centre under which, the IT Services business of RIL was clustered. At the same time, he was responsible for the ITS business of the *Company* from April 01, 2014 onwards.

261. As the part of his job, *Noticee no. 4* has admitted to be looking after the sales being made by the *Company* under its IT Services vertical. At the same time, *Noticee no. 4* has denied being part of purchase transactions for the *Company*. On the basis of such submissions, *Noticee no. 4* has attempted to state that he has no role in the fraudulent inflation of revenue, as FDSL was a vendor of RIL with whom he never had business interaction.

262. In this respect, it is observed that FDSL was both a vendor as well as a customer of RIL under its IT Services vertical and the said fact has been found established in the light of numerous transactions already narrated above in this order. It is further noticed that there are numerous evidences available on record wherein *Noticee no. 4* was sent emails by *Noticee no. 6* attaching third party documents. However, at no point of time, *Noticee no. 4* raised any objection to the said practice of third party documents coming from *Noticee no. 6* in the names of various paper entities on behalf of whom *Noticee no. 6* was communicating with RIL.

263. I have already discussed in detail above about the whole scheme of fraudulent inflation of revenue executed by the *Noticees no. 1 to 6* in the books & accounts of RIL wherein, round tripping of funds had taken place using FDSL and various entities connected with *Noticee no. 6*. I find that many of those entities connected with *Noticee no. 6* were also the customers of RIL and were purchasing products from RIL which were actually sold to RIL by FDSL. As the original vendor of these products was FDSL, in the end all these products were pre-determined to

return back to FDSL via those fictitious sales to those fictitious entities controlled by *Noticee no. 6*, leading to round tripping/churning of product and funds on record amongst FDSL, RIL and other fake entities floated by *Noticee no. 6*, without involving any actual delivery of goods to any entity, which would result in the intended level of inflation of revenue of these entities including RIL and FDSL.

264. In this regard, I find that the role of *Noticee no. 4* as a senior management official responsible for sales of RIL under its IT Services vertical becomes crucial. Without the support of *Noticee no. 4*, the plan of rest of the *Noticees* could not have become successful, as *Noticee no. 4* being the chief of IT Services of the *Company*, could have easily red flagged any transaction of sale by RIL and creation of tax invoices, that was being made without any back up inventory in the stock or without any actual delivery of IT goods & services in the names of those connected entities of *Noticee no. 6* as buyers of products from RIL. Had *Noticee no. 4* not been a part of the said fraudulent scheme, he would have definitely raised objection on these transactions being made without any proof of delivery of those products to the buyer entities connected with *Noticee no. 6*. Given the fact that *Noticee no. 4* could not produce a single evidence of him objecting any such fictitious transactions, there is no doubt left that he himself was part of the entire fraudulent scheme.

265. In addition to the aforesaid, I find that *Noticee no. 4* was one of the persons who had reviewed and approved the RITS Partner Program Agreement with all the three entities viz. FDSL, Redhex and Vedavaag. Given the fact that *Noticee no. 6* was a witness in the agreement between Vedavaag and RIL, the same should have certainly raised red flag in his mind. However, there is no evidence of any such concern or objection raised by *Noticee no. 4* before the management in respect of the said agreement and such spurious transactions. I find it important to once again reiterate that it is only pursuant to the above agreements with FDSL, Redhex and Vedavaag that transactions were entered into between FDSL & RIL

to inflate the turnover of RIL.

266. I find that the connection between *Noticees no. 4* & *6* is well established through RNMIT in which *Noticee no. 6* and his wife were co-directors with the wife of *Noticee no. 4*. He has also admitted to have gone on family trips to Dubai and Aurangabad with *Noticee no. 6* and his family, the tickets of which were booked by *Noticee no. 6*.

267. It is also observed that *Noticee no. 4* had sent an email on June 10, 2014 to *Noticee no. 6* for payment of tuition fees for his daughter, Ms. Sheetal Saini's education in Singapore. In response to the said email, *Noticee no. 6* had sent a confirmation email with the payment receipt on October 31, 2014. *Noticee no. 4* has attempted to explain the said transaction by stating that the same was a financial accommodation extended by *Noticee no. 6* by paying the fees of *Noticee no. 4*'s daughter as *Noticee no. 4* didn't have the facility to make international payments from his account. *Noticee no. 4* has also contended that he has repaid the said amount paid on his behalf by *Noticee no. 6* against such tuition fee.

268. I find that neither *Noticee no. 4* nor *Noticee no. 6* has submitted any concrete proof of the repayment having made by *Noticee no. 4* to *Noticee no. 6* nor the same has been supported by any bank transaction and only a handwritten statement of *Noticee no. 6* on a plain paper is submitted before me to claim that *Noticee no. 4* has repaid those tuition fees to *Noticee No. 6*. This position has not changed even after the said deficiency was clearly spelt out in another Order dated July 06, 2020 arising out of a separate investigation pertaining to Insider Trading in the scrip of RIL by *Noticee no. 6* and FDSL and in that proceedings also neither of *Noticees no. 4* & *6* could submit any bank transaction in support of such repayment having been made. In such a scenario, I am unable to accept the receipt shown to me by *Noticee no. 6* on a plain paper as proof of repayment of tuition fees by *Noticee no. 4* to *Noticee no. 6* who had paid the same to meet the tuition fees requirement of

the daughter of *Noticee no. 4*.

269. In the end, I find that *Noticee no. 4* was constantly showing significant over achievements with respect to his sales targets set for his performance appraisal. However, at no point of time, no one ever raised any red flag as to how such impressive outperformances were being accomplished by him continuously over a period of time. Had anyone raised a red flag, the fraudulent scheme would have been disclosed much earlier. Under the circumstances, considering the way such manipulation of accounts and concealment of facts were carried out in a sustained manner for over a long duration, I am constrained to observed that such acts are not outcome of mere ignorance or inadvertence but certainly was a result of either active participation or tacit collusion of the *Noticee no. 4* with his superiors viz. *Noticees no. 1* and *2* in perpetrating the said fraudulent scheme.

270. In view of all the above, I hold that *Noticee no. 4*, by virtue of his position as IT Services business head for FY 2013-14 & FY 2014-15 and Senior Vice President & Chief Operating Officer of RIL for FY 2015-16, had active or tacit involvement in the entire scheme of fraudulent misreporting of the financial statements of RIL during his aforementioned tenure. The untrue financial statements resulted in misleading the investors about the financial performance of the *Company* and thereby resulted in artificial raising of the share price of RIL. Therefore, by being involved in the afore discussed fraudulent scheme of inflating and fabricating the financial statements of the *Company*, directly or indirectly, *Noticee no. 4* has violated the provisions of Sections 12A(a), 12A(b) and 12A(c) of SEBI Act read with Regulations 3 (b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations.

A. T. Rajan

271. It is alleged that *Noticee no. 5* was the Chairman of the Finance Committee in FY 2014-15, after taking charge of the same from *Noticee no. 1*. However, I find from

the Annual Report of RIL for FY 2014-15 that the Finance Committee of the said Financial Year had two members viz: Mr Manoj Kumar (*Noticee no. 1*) and Mr. U P Mathur. Therefore, it may not be correct to observe that *Noticee no. 5* was a part of Finance Committee of the *Company*.

272. I note from the *Interim Order* as well as the Annual Report of the *Company* for the Financial Year 2015-16 that *Noticee no. 5* was the Senior Vice President & Chief Strategy Officer of RIL till April 12, 2016, a position which was on the same level of hierarchy as COO & CFO and he was reporting directly to CEO.

273. It has been alleged in the SCN that he was looking after various supply chain management (SCM) and marketing functions of the *Company* which has been vehemently denied by *Noticee no. 5*. However, I note that the *Interim Order* clearly identifies that he was SCM and Marketing head for FY 2014-15 and 2015-16. The same has been confirmed in the FAR as well. I also find from the disclosure dated April 13, 2016 wherein *Noticee no. 5* was named as the MD of the *Company,* it was mentioned by the *Company* that as a part of his profile over the course of his employment prior to such elevation as MD, he was responsible for Corporate Strategy, Marketing, Human Resources, Supply Chain Management and CSR. As the aforesaid disclosures were made by the *Company* itself, I don't find the submissions of *Noticee no. 5* tenable as there are sufficient material available on record to establish that he was indeed in control of Supply Chain Management of the *Company*.

274. It is an established fact that the logistics function in a company is looked after by the Supply Chain Management team. In such a scenario, it is unlikely that any misappropriation of goods can happen without the involvement of the SCM & Marketing Head, which was *Noticee no. 5* in the present matter. It has been submitted by *Noticees no. 3* and *4* that upon receipt of a Purchase Order from a customer, it was SCM department which used to choose the vendor to fulfil the

requirement of that purchase order. Accordingly, an order used to be sent to the vendor and upon his acceptance, the same was communicated to the customer against its Purchase Order. Therefore, it becomes clear that the SCM Department enjoyed a substantial power if not full power, in selecting the vendor and ordering the vendor to supply the goods to the customer and as the head of such department, such power certainly rested in the hands of *Noticee no. 5*.

275. I have already discussed in the earlier part of this Order as to how the concentration of purchases made by RIL from FDSL increased over the period of time reaching its peak of more than 73% of the purchases being made by RIL from FDSL. I find it relevant to mention here that *Noticee no. 5* joined RIL in 2011 (same year as *Noticee no. 2*) and he was SCM Department and Marketing Department head of RIL for the FY 2014-15 and 2015-16. During such period as the head of SCM Department, it should have alarmed him to see the rapid concentration of purchases in only one vendor, viz: FDSL out of all the vendors of RIL since every three out of four purchase orders coming from the customers of RIL were being fulfilled by FDSL. No good organization would like to have concentration of purchases in one or a few vendors only or as such concentration leads to huge risk to its business in the event of loss of or any disruption of such vendor to supply goods on time for onward delivery to be made to the customers of the company. In fact, companies having a huge concentration of business with a few selected vendors or even customers as was being done in RIL, are disliked by shareholders/investors as compared to companies having diversified portfolio of investors or vendors. However, despite this glaring development in the business dealings of RIL, *Noticee no. 5* continued to build up heavy concentration of purchases from only one vendor by continuously giving orders to FDSL to supply to the customers of RIL. Therefore, it is not just a coincidence or act of negligence or lack of due diligence but rather was a part of a bigger scheme of things that all the purchase orders of the entities connected with *Noticee no. 6* were

invariably passed on to FDSL as vendor with an instruction to supply to those entities directly, without keeping RIL in the loop even about the delivery of those goods and there was no way for RIL to know if those goods were actually being delivered to those customer entities connected to *Noticee no. 6* except for depending on the communication from FDSL or the customer itself. It is also not surprising in the scheme of things that *Noticee no. 5*, in his position as SCM head, did not ever sought any proof of fulfilment of orders to such connected entities of *Noticee no. 6* as the fraudulent scheme under which such transactions were happening never envisaged actual delivery of the goods ordered to those entities but intended only to create artificial purchase and sales turnovers to inflate the accounts of RIL as well as connected entities of *Noticee no. 6*.

276. I also note that *Noticee no. 5* was one of the authorized signatories to avail Vendor Financing and Letter of Credit facility from Bank of America and HSBC Bank Limited as per the resolution passed vide Board meeting dated August 13, 2013, which led to grant of preferential treatment to FDSL through the said vendor financing. In continuation of such actions, the sanction letters from Bank of America & HSBC Bank Limited for Vendor Financing of FDSL were co-signed by *Noticee no. 5* on behalf of RIL. Additionally, all documents for vendor financing to the sole beneficiary of this facility viz. FDSL, submitted to the two Banks on behalf of RIL from time to time, were signed by *Noticee no. 5*. This clearly shows a glaring favouritism that is clearly manifest in the actions of *Noticee no. 5* in favour of *Noticee no. 6* and FDSL to benefit them even at the cost of RIL by providing them vendor financing facility only to enrich the free cash flows of FDSL. As already explained in detail, the said facility was extended as a *quid pro quo* in return for *Noticee no. 6* providing fake POs of the paper companies being managed by him, to fictitiously inflate the financials of the *Company*. In such circumstances, it is not a surprise that even after receiving the forensic audit report of PwC and removal of *Noticees no. 1, 3* and *4* from their respective positions, the supply orders

kept on flowing towards *Noticee no. 6*. The role played by *Noticee no. 5* in this whole scheme also gets affirmation from the fact that EOW in its report on a complaint filed by the *Company*, had to close the said case against *Noticees no. 1, 3* and *4* due to non-cooperation by the *Company* itself in providing necessary documents. The said non-cooperation of the *Company* to EoW was done under the leadership of *Noticee no. 5* as its MD. It was only after passing of *Interim Order* that *Noticee no. 5* was removed from the control of the *Company*. However, by that time it was too little too late as the investors had to pay the price by selling the shares of the *Company* at a huge loss pursuant to resolution approved in CIRP.

277. In view of the above discussions, I find that *Noticee no. 5*, by virtue of his position as SCM and Marketing head for FY 2013-14 and 2014-15, had deliberately bestowed undue benefits in favour of *Noticee no. 6* and FDSL by constantly giving them business in preference to other vendors to the extent of 73% of total purchases of RIL and also by providing Vendor Financing and Letter of Credit Facility to FDSL. By doing so, *Noticee no. 5* has established that he had an active involvement in committing the fraud of inflating the revenue of RIL in collusion with FDSL as well as the entities connected with *Noticee no. 6* thereby leading to misreporting of the financial statements of RIL. The untrue financial statements so disclosed through the stock exchange resulted in misleading the investors about the financial performance of the *Company* and thereby resulted in artificial inflation of the share price of RIL. By being involved in all the aforementioned acts, *Noticee no. 5* has actively abetted others in creation of fraudulently inflated financials of the *Company* in violation of the provisions of Sections 12A(a), 12A(b) and 12A(c) of SEBI Act read with Regulations 3 (b), (c), (d), 4(1), 4(2)(e), (f), (k) and (r) of PFUTP Regulations.

Amalendu Mukherjee

278. After having discussed elaborately the entire artifice of the fraudulent scheme in

this order, there is no space for any doubt that *Noticee no. 6* was the main facilitator and collaborator of the said accounting and financial fraud that was played on the promoters and public shareholders of the *Company*. I have already discussed in detail, various discrepancies noticed in the transactions done by FDSL as well as other vendors of RIL and have also pointed out how many of the vendors and customers were found to be connected to him and all the communication on behalf of these entities with RIL was managed only through him. In fact, in a blatant violation of basic accounting practices, I find that editable tax invoice and PO of Rudra Enterprises were shared by *Noticee no. 6* in an email dated December 31, 2014 with RIL. By sharing such a sensitive internal document of Rudra Enterprises, *Noticee no. 6* has convinced me of the following: -

278.1. That editable tax invoices and POs were supplied to RIL to allow RIL to edit/fabricate the values and other details as per the requirement of the *Company* in order to achieve its revenue target for the month of December 2014 as well as for the quarter ending December 2014.

278.2. That these documents were shared by *Noticee no. 6* from his own FDSL email ID instead by any other employee of Rudra Enterprises which alongwith a number of earlier discussed other evidences, conclusively establish that the management of both the entities were same and rested in the hands of *Noticee no. 6*.

278.3. That a group of entities with which RIL had numerous transactions amounting to a very large proportion of the total revenue of the *Company*, was found to be related and under the control of *Noticee no. 6* through Ashish Jindal. Some of these entities were Nike Sales Corporation, Redhex, PS Techno, Jatalia Global Ventures Limited, Jindal Infra Solutions Pvt. Ltd., Aastha Impex, etc. This inference can be very well drawn from the fact that the POs of all these companies were forwarded

to RIL by *Noticee no. 6* instead of those POs being forwarded directly by those entities. In addition to this, the tax invoices of these entities were shared by RIL with *Noticee no. 6* instead of directly sending them or communicating with the respective entities to whom the goods were sold. In the light of various discrepancies highlighted in this order regarding their TIN Registrations and inability of *Forensic Auditor* to locate those entities at their addresses available on record, it will not be wrong to hold them as shell entities or paper entities that were created only for name lending for the purpose of booking fictitious sales transactions for inflating the financials of the *Company*.

278.4. That a lot of round tripping of funds and products have been observed between FDSL and its connected entities via RIL wherein the said connected entities used to place their purchase orders to RIL only through *Noticee no. 6*. Thereafter, RIL used to select FDSL as the vendor which used to show that it had fulfilled those purchase orders directly to its connected entities without there being any evidence of requisite inventory of such stock available either within RIL or FDSL to actually deliver such goods to those entities. Moreover, at no point of time, either FDSL or any of those connected entities has been able to submit proof of delivery of such goods to RIL.

279. I also find from material available on record that after changing the statutory auditor of RIL from *Noticee no. 7* to BSR in FY 2015-16, an entity which is a part of larger KPMG group worldwide, BSR raised suspicions regarding certain transactions between RIL and its customers & vendors in October-November 2015 during its very first limited half yearly audit. This finding of suspected transactions led to delay in finalizing financial results and delayed convening of meeting of Board of Directors of the *Company*. During the same time, *Noticee no. 6* is seen to have registered domain names of New Code and Rudra Enterprises

in his attempt to establish that these were real entities and not the entities that existed only on paper.

280. Subsequent to the aforesaid development pursuant to concerns raised by BSR, vide email dated January 08, 2016, Mr. Bibek Chowdhury, the then Head – Operations Audit Group/Internal Audit of RIL, sought explanation from *Noticee no. 6* on certain suspicions involving two orders worth INR 33 Crores which FDSL contracted to RIL and RIL, in-turn sub-contracted to New Code. It appears that the said explanation was sought from *Noticee no. 6* upon a query raised by BSR. Mr. Bibek Chowdhury sought explanation citing to *Noticee no. 6* that when the directors of both FDSL and New Code were the same, why the orders were placed to New Code via RIL when the same could have been directly given by FDSL to New Code. In his response, *Noticee no. 6* attempted to explain that he and his wife sold their stake in New Code in October 2014 to Ashish Pandey and Jitendra Sharma and were only Independent Directors till August 2015. However, this explanation from *Noticee no. 6* has already been discussed and rebutted in this order earlier, giving a finding as to how both the aforementioned two persons, viz: Ashish Pandey and Jitendra Sharma were connected to him and till as late as January 2016, *Noticee no. 6* was holding control over New Code.

281. Immediately after receiving the above noted email of Mr. Bibek Chowdhury, in a display of offense against defence, *Noticee no. 6* sent an email on January 14, 2016 to Ms. Smriti Pandey (an employee of RIL), in which he has pointed out certain international cases wherein KPMG was found guilty of being a party to various wrongdoings in different countries. In my view, such an email from *Noticee no. 6* shows only a desperate attempt by him to distract the attention of the *Company* and its internal auditors from the findings made by BSR about his wrongdoings, more so when, being an outsider, *Noticee no. 6* had no right to comment upon nor had any role in the appointment of statutory auditor of RIL, which was an internal matter of RIL. Also such a belated email sent by him in January 2016 as a reaction

to appointment of BSR as the statutory auditor which had already been appointed by the *Company* as statutory auditor of RIL in September 2015 itself, shows that *Noticee no. 6* had sent the above email as an afterthought effort to evade explaining the discrepancies noted by BSR during their first limited review.

282. This emails exchanges of Mr. Bibek Chowdhury and *Noticee no. 6* in January 14, 2016 clearly shows that the skeletons of the above discussed fraudulent scheme conceived and executed by *Noticees no. 1 to 6* had stated to tumble out of the cupboard by that time. Therefore, it appears from the aforesaid email dated January 14, 2016 that the intent of *Noticee no. 6* to write such a mail was to induce RIL to remove BSR as statutory auditors so as to prevent it from exposing the entire scheme that was designed by the *Noticees no. 1 to 6* to misrepresent the financial statements of RIL. It also shows his access to the insiders of the *Company* and the kind of clout he was enjoying with the management to influence their decision. Since it had become apparent by that time that the whole scheme concocted by him with the old management of RIL had started to unravel before BSR, the newly appointed Statutory Auditor, *Noticee no. 6*, in a last minute bid, attempted to remove them from continuing as statutory auditor to keep the secrecy surrounding the said scheme intact.

283. In the light of all these facts, it is not difficult to deduce that, by misusing the RITS Partner program and by fabricating various transactions with RIL and with his connected entities, *Noticee no. 6* had successfully inflated the turnover of FDSL in a systematic manner during those financial years which helped FDSL in getting itself listed on NSE Emerge platform in January 2016. Given the admission by *Noticee no. 6* that all the transactions executed by FDSL with RIL were under RITS Partner program, the corresponding conclusion would be that the said program was used to inflate the turnovers of both RIL and FDSL during the Investigation Period. Additionally, considering the fact that the 3 companies which were enrolled in the RITS Partner program were connected to *Noticee no. 6*, I find no

hesitation in concluding that the RITS Partner Program was designed by RIL with the sole intention of inflating its turnover and to provide undue benefits to FDSL and the entities connected with *Noticee no. 6*.

284. As a *quid pro quo* to *Noticee no. 6* for providing bogus POs in the names of different entities to RIL to inflate its turnover by creating corresponding fake sales invoices, RIL arranged for Vendor Financing and Letter of Credit facility exclusively for FDSL. Using this facility, *Noticee no. 6* availed undue commercial benefit from RIL in the form of short term working capital facilities from Bank of America NA and HSBC Bank Ltd. in favour of FDSL through financing arrangement to the tune of INR 500 Crores at the cost of RIL as the interest burden of all this funding was put on the shoulder of RIL. These gestures from RIL towards FDSL resulted into improved working capital position and better free cash flow in the books of accounts of FDSL which would have definitely helped FDSL in attracting subscription to its shares at the time of its listing on NSE-Emerge platform.

285. The culpability of *Noticee no. 6* gets further established conclusively in the light of the fact that he had used the account of FDSL to trade in the shares of RIL from August 22, 2014 to November 20, 2015 and later on liquidated the said shareholding in RIL during the week ending on November 20, 2015, which happens to be around the time when BSR started raising red flags relating to certain transactions of RIL with its vendors and customers. It may be noted here that in the light of another Order dated July 06, 2020 pertaining to insider trading in the scrip of RIL, it is now a well-established fact that *Noticee no. 6* had made unlawful gains and avoided losses in the account of FDSL, by disposing off shares of RIL just around the time when the new statutory auditor of the *Company* viz. BSR was raising concerns regarding its dealings with the entities connected to *Noticee no. 6*. The total amount of said unlawful gains and loss avoided was determined to be INR 2,30,34,010/- in the hands of FDSL. Further, the position

enjoyed by *Noticee no. 6* in FDSL has been succinctly explained by the Hon'ble SAT in its order dated January 19, 2021 while dealing with the said matter of Insider Trading by *Noticee no. 6* and FDSL in the scrip of RIL, by stating as follows:

"*13. Further, though FDSL was a separate legal entity, the appellant was its 'soul'- being the majority promoter and Managing Director who managed the affairs of FDSL. Apart from FDSL being a separate legal entity, there is nothing on record to show that anybody else other than the appellant was in-charge of FDSL in its day-to-day management and, therefore, the attribution of FDSL activities to the appellant does not suffer from any lacunae. By the same reasoning, we find no legal error in SEBI lifting the corporate veil in order to get to the root of the suspected fictitious transactions between FDSL, Ricoh and other entities.*" (emphasis supplied)

Hon'ble SAT also observed that

"*17. Given the nature and extent of connection which the appellant had with Ricoh and its KMPs in terms of his ability to influence orders by even providing editable invoices, parties routing Ricoh orders through FSDL, cross directorships in various entities in the game, ability to even influence decision relating to appointment of auditors, all detailed in the impugned order, are sufficient to conclude that appellant had an extraordinary nature of connection/influence with Ricoh and its KMPs for him to fall squarely within the meaning/definition of "connected person" and hence "insider" under the regulatory provisions cited above. Cumulatively all such evidence leads to a formidable conclusion that appellant was an insider in Ricoh and hence he sold the shares of Ricoh while being privy to the UPSI that Ricoh's financials were not as being disclosed during 2012-13 through 2015-16. The appellant does not have any meaningful answers to the questions on his extraordinary nature of connection and even influence with several of the KMPs of Ricoh even in supporting the expenses of them and their family members, suggestion not to appoint KPMG as auditor etc.*" (emphasis supplied)

The aforesaid, when seen in connection with the above cited emails sent by *Noticee no. 6* to RIL in an attempt to remove BSR from the position of statutory auditor of RIL by highlighting the alleged wrongdoing of KPMG Group around the world, clearly shows that *Noticee no. 6* was fully determined to protect his interest in the *Company* at any cost, both as an insider trader and as a business partner (vendor and customer) of the *Company* who colluded with other *Noticees* to translate into action, the fraudulent scheme of manipulation and inflation of books of accounts of the *Company*.

286. In view of all the above factual findings, I find nothing short to hold that *Noticee no. 6*, as the MD of FDSL and as the effective controller of numerous other paper/shell entities, had availed undue benefits for FDSL from RIL by fabricating purchase orders of these paper entities and consequent sales invoices raised by RIL and by fulfilling those sales only on paper without having to deliver any products or services mentioned in those invoices generated by RIL only for the purpose of booking fictitious sales and profits. For this end, he had connived with the employees of RIL and played an active role in facilitating the fraud of misreporting the financial statements of RIL. Such untrue financial statements that were published by the *Company* resulted in misleading the investors about the financial performance of the *Company* and thereby resulted in artificial appreciation of the share price of RIL. Therefore, by playing the aforementioned role and by committing all the aforesaid collusive acts as discussed at length above, I hold that *Noticee no. 6* has violated the provisions of Sections 12A(a), 12A(b) and 12A(c) of SEBI Act read with Regulations 3(b), (c), (d), 4(1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations.

M/s. Sahni Natarajan & Bahl and its partner CA Sudhir Chhabra, statutory auditors of RIL

287. I find that *Noticee no. 7* was appointed as statutory auditor of RIL for the first time

in FY 2001-02. Thereafter, *Noticee no. 7* continued as the statutory auditors of RIL till FY 2014-15 and after that the statutory auditors were changed and in their place BSR was appointed as statutory auditors in FY 2015-16. I find that the change in statutory auditors was not by choice but a matter of compulsion due to notification of Section 139 of the Companies Act, 2013, which prescribed mandatory rotation of statutory auditors for listed companies once in every 10 years, if the statutory auditor is a firm. As *Noticee no. 7* had already completed more than 10 years, they had to be changed pursuant to the mandate of Section 139 of Companies Act, 2013. In this regard, some of the *Noticees* have contended that the change in statutory auditors was a matter of choice as *Noticee no. 7* could have continued for one more year. However, I don't find much force in such argument as the mandate of Companies Act, 2013 had very much come into force for changing the auditor, and be it in 2015-16 or one year later, it does not make any difference to the compulsion imposed by the said statutory mandate on the *Company*.

288. It is an undisputed fact that only in FY 2015-16, when BSR was appointed as statutory auditors of the *Company* and commenced their statutory audit, did the fraud come to light. Further, it is not the case that the fraudulent scheme was so well hidden from eyes or was conceived in such a complex manner that it took BSR to do a few repeated audits or to make any complex laborious effort to examine different financial statements so as to find out those fraudulent transactions as discussed in the present order which contributed to the inflated and misreported financial results of the *Company*. While the total extent of fraud came to light only at a much later stage pursuant to a combined audit of books of accounts of both RIL and FDSL, it remains a crucial fact that some of those suspicious transactions were red flagged by BSR in its very first limited audit. The above noted finding by BSR in their very first limited audit clearly puts an immediate onus on *Noticee no. 7* to establish that they were following due diligence

and care in true spirit of these terms while auditing the books of accounts of RIL over the last 15 years and how, despite acting with such due diligence and care, they could not unearth even a single instance of such wrongdoing over a period of three years of their audit exercise i.e. FY 2012-13 to 2014-15 which, BSR unearthed in its very first limited audit exercise of the financial statement of the *Company* for the half year ended September 2015.

289. In my view, the fact that *Noticee no. 7* were the statutory auditors of the *Company* for a long period of 14-15 years, they must be very well conversant with the business model and working culture of the *Company* apart from its accounting policies and practices, in a much deeper way than BSR which had joined the *Company* as Statutory Auditor barely a few months prior to their audit of financial statement for half year ending September 2015. In such circumstances, the visible concentration of majority of purchases with a new single vendor (FDSL), many entities connected with *Noticee no. 6* or FDSL giving a lot of purchase orders to RIL, their details being shared with RIL by *Noticee no. 6* who was in control of FDSL and finally all those orders being fulfilled directly by FDSL without the involvement of RIL against the backdrop of no proof of any physical delivery of those sold goods either available with RIL or FDSL etc. were some of the areas which warranted the basic minimum red flags from the *Noticee no. 7* in the present matter. Further, if *Noticee no. 7* had ever sought for records/evidence of delivery of products from FDSL to the connected entities of *Noticee no. 6* or had anytime raised basic questions as to why there were only 3 RITS Partners or why only FDSL was getting benefits of vendor financing facility and not any other vendor, the *Noticee no. 7* itself would have brought the whole scam to light at a much earlier stage. This would have restricted the size of loss to the *Company* and consequently to the investors also. Therefore, it is very much clear that *Noticee no. 7* has grossly failed to complete its job as statutory auditors, have chosen to remain quiet over such abnormal and irregular purchase and sales transactions

that are neither backed by delivery of goods nor supported by transparent accounting practices. It is not under dispute that all the statutory audit reports of RIL during the investigation period starting from 2012-13 to 2014-15 were signed by *Noticee no. 8* as the partner of *Noticee no. 7*, which makes him directly liable for actions of *Noticee no. 7*.

290. I find it important here to make a note about the role that statutory auditors play with respect to a listed company in the securities market. A statutory auditor is expected to be an independent entity which ought to act as the conscience keeper of the listed company. It has to act as a guard to inhibit the management or any other employee of such listed company from committing any financial wrongdoing. Its role is one which creates a sense of trust in outsiders making them believe that an independent and competent entity has examined the financial records of the company and has found them to be in order. Investors in the securities market rely on the opinion of the statutory auditors while evaluating the financial statements of a company. Being a professionally qualified entity and being governed by elaborate auditing standards prescribed by ICAI, it is always presumed that a statutory auditor would have conducted audits of books of accounts of the company after exercising due care and diligence and would diligently point out shortcomings in the records or processes followed by the company, which the listed company is obligated by law to disclose to the shareholders and such listed company is also required to explain the steps it is taking to remedy those shortcomings.

291. However, in the instant case, *Noticees no. 7* & *8* have quite apparently failed to perform the said role leading to deception of the investors and misreporting of financial statements to the public, who relied upon those audited but artificially inflated financial statements accompanied with the statutory auditors' report which contained no such red flags pointing out to any of those abnormal and fictitious transactions as pointed out in this order.

292. Be it as it may, I find that the profession of chartered accountancy is governed by rules and regulations framed by ICAI and the scope of jurisdiction of SEBI in the matters related to chartered accountants, including statutory auditors, is limited. The same has been defined by Hon'ble Bombay High Court in its judgment dated August 13, 2020 in the matter of Price Waterhouse Co. Vs SEBI (Writ Petition no. 5249/2010). The same has been referred and relied upon by the Hon'ble SAT in its recent order dated February 18, 2022 in the matter of Mani Oommen vs. SEBI wherein the Hon'ble SAT made the following observations:

"*10. The Bombay High Court held that in view of the various provisions contained in the SEBI Act and Regulations it is the duty of the Board to protect the interest of investors in securities and to promote the development and to regulate the securities marked by such measures as it thinks fit. The Bombay High Court held that while exercising the powers under the SEBI Act, it is not open to SEBI to encroach upon the powers vested with the Institute under the Chartered Accountant Act, 1949. However, in a given case, if there is material against the C.A. to the effect that he was instrumental in preparing false and fabricated accounts in connivance, then SEBI is entitled to pass appropriate orders under section 11(4) of the SEBI Act in the interest of the investors or securities market and is entitled to take measures as prescribed in the said section. Further, appropriate directions can be given under section 11-B.*"

The aforesaid observations of Hon'ble Bombay High Court were further clarified by Hon'ble SAT in the following terms:

"*12. In Price Waterhouse Co. Vs. SEBI in appeal no. 6 of 2018 decided on 09.09.2019, this Tribunal while considering the role of the appellant as a firm of the C.A.s and after considering the judgment of the Bombay High Court (supra) found that the scope of the enquiry was only restricted to the charge of conspiracy and involvement in the fraud and not to any charge of professional negligence since the C.A. / C.A. firm were not dealing directly in the securities. This Tribunal held that in absence of inducement, fraud was not proved nor there was connivance or collusion by the C.A.s and therefore, the provision of section 12 (A) of SEBI Act and*

Regulation 3 & 4 of PFUTP Regulations are not applicable. This Tribunal held that gross negligence or recklessness in adhering to the accounting norms in the course of auditing can only point out to the professional negligence which would amount to a misconduct to be taken up only by ICAI.

14. We find that the A.O. has only found that due diligence was not carried out by the appellant. There is no finding that the appellants were instrumental in preparing false and fabricated accounts or have connived in preparation or falsification of the books of account. There is no finding that the appellants had manipulated the books of accounts with knowledge and intention, in the absence of which, there is no deceit or inducement by the appellants. In the absence of any inducement, the question of fraud committed by the appellants does not arise. This Tribunal in Price Waterhouse (supra) has categorically held that ***a C.A. can be proceeded against them if they are instrumental in preparing false and fabricated accounts otherwise SEBI has no power to proceed against them.***" (emphasis supplied)

While SEBI has filed appeals against the aforementioned judgment of Hon'ble Bombay High Court and the aforementioned order of Hon'ble SAT, no stay on applicability of these judgment and order have been granted by Hon'ble Supreme Court of India. In such a scenario, judicial discipline demands that I should follow the aforementioned judgment of Bombay High Court and order of SAT.

293. In view of the above observations of Hon'ble Bombay High Court and Hon'ble SAT, I find that, to take any action against a chartered accountant under SEBI Rules and Regulations, two essentials ingredients are required to be satisfied:

293.1. Gross negligence and dereliction of duty on the part of auditor; **and**

293.2. It's connivance and collusion with the company/management

294. I find that there are ample evidences in this matter to point out that there has been gross negligence and dereliction of duty on the part of *Noticees no. 7* & *8* and given the fact that the fraudulent transaction which BSR could discover in a matter of few months during their first limited audit of half yearly accounts of

the *Company*, but the *Noticee no. 7* could not unearth even a shred of such transaction, it strongly suggests that the *Noticee no. 7* turned a blind eye to all these transactions and completely kept these transactions under the carpet while doing statutory audit of the *Company*. The SCN has not alleged any technical deviation from the rules by the *Noticee no. 7* or *8* while performing their statutory audit, however, at the same time, it is a matter of serious concern that the audit firm which remained associated with a listed company for a long period of almost 15 years was not able to detect or to even sense about such fraudulent transactions that were continuing in the accounts of the company over the years, which got caught so easily within a few months by a new auditor i.e. BSR in its first limited audit of the financial statement of the *Company*. The above observation, in my view certainly points towards serious and gross negligence on the part of the *Noticees no. 7* and *8*.

295. With respect to any possible connivance or collusion by the *Noticee no. 7* with the *Company* or its management, it is true that, in such matters it is very difficult to find out either a written agreement or such agreement of minds and the same has to be culled out from the acts of the parties. However, there has to be some evidence to support such meeting of minds before accusing the *Noticee no. 7* of actively colluding with the *Company*. In the present matter, I don't find sufficient evidence from the record to make an assertive statement that there was an agreement or understanding among *Noticees no. 7* & *8* and other *Noticees* in terms of which *Noticees no. 7* & *8* were acting in connivance and collusion with other *Noticees* in executing their fraudulent scheme. Therefore, I find that action, if any, is required to be taken against *Noticees no. 7* & *8*, falls within the domain of ICAI. Nevertheless, even in the absence of any supporting evidence of collusion, looking at the glaring misconduct and dereliction of duties and abhorrence of due diligence while conducting statutory audit as glaringly displayed by the *Noticee no. 7*, it is incumbent to refer the matter pertaining to *Noticee no. 7* & *8* to ICAI to

examine the role of these *Noticees* for appropriate action.

Concluding Remarks

296. There is no second view that any act of indulgence in inflating the books of accounts to showcase before the public an artificially impressive financial results which the management of the company itself does not believe in, tantamount to committing a fraud on the shareholders and other investors of the securities market, thereby pushing them into believing in those misleading and misreported financial statements. Such an act is considered to be a very serious offense *inter alia* for the reason that it infuses completely wrong and misleading information about the company into the minds of the investors that goes completely against the sacrosanct doctrine of disclosure based upon which, all the participants in the securities market take their investment decisions. Disclosure and transparency are the two pillars on which market integrity rests. In the present matter, the facts and circumstances surrounding the fraudulent scheme conceived and acted upon by the *Noticees no. 1 to 6*, as have been deliberated in the preceding paragraphs of this order, clearly indicate how the investors' confidence has been eroded and how the market has been abused by repeated disclosure of misleading as well as false picture of consistent growth of the *Company*, which also facilitated artificial inflation of price of its scrip. In such a scenario, it is necessary to recall the warning given by Hon'ble Supreme Court in its judgment in the matter of N Narayanan vs. Adjudicating Officer, SEBI wherein Hon'ble Apex Court made observation regarding this kind of market manipulation in the following terms:

"……*"market abuse" has now become a common practice in the India' security market and, if not properly curbed, the same would result in defeating the very object and purpose of SEBI Act which is intended to protect the interests of investors in securities and to promote the development of securities market. Capital market, as already stated, has witnessed tremendous growth in recent times, characterized particularly by the increasing participation of the public.*

Investor's confidence in capital market can be sustained largely by ensuring investors' protection.

43. SEBI, the market regulator, has to deal sternly with companies and their Directors indulging in manipulative and deceptive devices, insider trading etc. or else they will be failing in their duty to promote orderly and healthy growth of the Securities market. Economic offence, people of this country should know, is a serious crime which, if not properly dealt with, as it should be, will affect not only country's economic growth, but also slow the inflow of foreign investment by genuine investors and also casts a slur on India's securities market. Message should go that our country will not tolerate "market abuse" and that we are governed by the "Rule of Law". Fraud, deceit, artificiality, SEBI should ensure, have no place in the securities market of this country and 'market security' is our motto. People with power and money and in management of the companies, unfortunately often command more respect in our society than the subscribers and investors in their companies. Companies are thriving with investors' contributions but they are a divided lot. SEBI has, therefore, a duty to protect investors, individual and collective, against opportunistic behavior of Directors and Insiders of the listed companies so as to safeguard market's integrity."

In the same judgment, Hon'ble Supreme Court has also succinctly explained the impact of misleading information on the investor community in securities market in the following terms:

"*Prevention of market abuse and preservation of market integrity is the hallmark of Securities Law. Section 12A read with Regulations 3 and 4 of the Regulations 2003 essentially intended to preserve 'market integrity' and to prevent 'Market abuse'. The object of the SEBI Act is to protect the interest of investors in securities and to promote the development and to regulate the securities market, so as to promote orderly, healthy growth of securities market and to promote investors protection. Securities market is based on free and open access to information, the integrity of the market is predicated on the quality and the manner on which it is made available to market. 'Market abuse' impairs economic growth and erodes investor's confidence. Market abuse refers to the use of manipulative and deceptive devices, giving out incorrect or misleading*

information, so as to encourage investors to jump into conclusions, on wrong premises, which is known to be wrong to the abusers. The statutory provisions mentioned earlier deal with the situations where a person, who deals in securities, takes advantage of the impact of an action, may be manipulative, on the anticipated impact on the market resulting in the "creation of artificiality'. The same can be achieved by inflating the company's revenue, profits, security deposits and receivables, resulting in price rice of scrip of the company. Investors are then lured to make their "investment decisions" on those manipulated inflated results, using the above devices which will amount to market abuse."

297. In the light of afore quoted warning of Hon'ble Supreme Court and the duties imposed upon SEBI by the provisions of law as elaborated in the abovementioned judgment, I find it necessary to remind myself in brief, the misconduct and misdemeanours displayed by the *Noticees no. 1 to 6* by devising a sophisticated scheme in which *Noticees no. 1 to 6* played very crucial roles with the help of entities connected with *Noticee no. 6*, so as to perpetrate a fraud on the promoters and public shareholders and other stakeholders of RIL. The fraud so committed through a scheme to inflate the turnover, revenues and profits by imputing fictitious purchases and sales transactions into the books of accounts as already discussed exhaustively in this order, ultimately led to complete destruction of value of the *Company* causing heavy losses to the public shareholders and other stakeholders of the *Company* and also to the overseas promoter group which tried to revive the *Company* by infusing funds to the extent of INR 1123 Crores without reducing public shareholding at all. There cannot be a bigger evidence of destruction of value for shareholders of the *Company* than the delisting offer given to the public shareholders in terms of the resolution approved under CIRP wherein the successful Resolution Applicant offered to purchase all outstanding shares in the hands of public shareholders of the *Company* at a price of only INR 50 per share pursuant to the resolution of the *Company* and they consequently delisted the *Company*.

298. Further, the desperate attempts being made before me by *Noticees no. 1 to 6* to individually clear their names from all the alleged transactions on one pretext or other also highlight the fact that despite managing the entire fraudulent scheme through their acts of controlling and supervising all the transactions in funds and products made with FDSL and other entities related to *Noticee no. 6*, all these *Noticees,* especially *Noticees no. 1 to 5*, had attempted to create almost a perfect smoke-screen to hide their own names and activities from the glares of the shareholders.

299. I note that in the present matter the RIL has been voluntarily delisted from BSE on December 23, 2019 vide orders dated December 19 & 20, 2019 in terms of the Resolution Plan accepted by Hon'ble NCLT wherein the new acquirers made a delisting offer of INR 50 only per share to the existing public shareholders of the *Company*. Given the sacrosanct statutory duties of protecting the interest of investors and safeguarding the integrity of the securities market which has been entrusted to SEBI as a regulator under the securities laws, it is necessary that SEBI must exercise the powers vested in it firmly and effectively to insulate the securities market and investors from the fraudulent actions of certain unscrupulous participants in the securities market, so as to fulfil its legal mandate. A basic premise that underlies the integrity of securities market is that participants must conform to the standards of transparency, good governance and ethical behaviour prescribed in securities laws and must not resort to fraudulent activities. In this case, the conduct of *Noticees no. 1 to 6*, as brought out quite succinctly in the foregoing discussions has been in gross violation of this basic obligation cast by law. This is also a fit case where SEBI needs to send out a firm message to deter the companies and their managements from indulging in such acts of unethical, unfair and fraudulent behaviour to artificially paint a rosy picture of their financial affairs to the public as observed in this case. In my view, therefore, in the facts and circumstances of this case, strong deterrent action

needs to be taken by way of issuing directions against the errant *Noticees* against whom all the allegations made in the SCN stand vindicated in the present order.

300. I further note that the SCN calls upon the *Noticees* to show cause *inter alia* as to why penalty under Section 15HA read with Sections 11(4A) and 11B(2) of the SEBI Act and under Section 23H read with Section 12A(2) of SCRA should not be imposed for the violations of various provisions of SEBI Act, SCRA, PFUTP Regulations and Listing Agreement committed by the *Noticees*, as alleged in the SCN. I note that the powers vested under Section 11B(2) of SEBI Act and Section 12A(2) of SCRA are without prejudice to the powers to issue directions under Sections 11(1), 11(4A) and 11B(1) of the SEBI Act and Section 12A(1) of SCRA. In this regard, I note that Section 15HA of the SEBI Act and Section 23H of SCRA provide as under:

SEBI Act

Penalty for fraudulent and unfair trade practices.

15HA. *If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher*

SCRA

Penalty for contravention where no separate penalty has been provided.

23H. *Whoever fails to comply with any provision of this Act, the rules or articles or bye- laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*

301. In view of the aforesaid findings which clearly establish that the *Noticees no. 1 to 6* have acted in violation of provisions of the SEBI Act, PFUTP Regulations as well as provisions of Listing Agreement, the *Noticees no. 1 to 6* are liable to be held guilty of indulging in various acts of fraudulent and unfair trade practices by

inflating the financial results of the *Company* thereby facilitating inflation in the market price of the scrip of RIL whereas *Noticees no. 1, 2* and *3* have additionally been found to have disclosed the aforementioned false and fabricated financial statements on the platform of BSE under their signature despite knowing them to be untrue and inflated in nature.

302. In view of the detailed factual analysis and deliberations as well as my observations recorded in the foregoing paragraphs of this order with regard to the fraudulent activities committed by these *Noticees* as alleged in the SCN, I find that the aforesaid six *Noticees* are liable for issuance of appropriate directions for debarment from accessing the securities market and dealing in securities, and also are liable for imposition of appropriate penalty under Section 11B(2) read with Section 15HA of SEBI Act as well as under Section 12A(2) read with Section 23H of SCRA.

303. In this regard, I find that Section 15J of SEBI Act and Section 23J of SCRA provide for the factors that need to be considered while imposing the penalties. The said factors are common under both these provisions and have been reproduced below:

(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default

(b) the amount of loss caused to an investor or group of investors as a result of the default;

(c) the repetitive nature of the default.

At the same time, it is a well settled position of law that the aforesaid three factors are not exhaustive in nature and the adjudicating authority, while deciding on levying penalty in a matter, may take into account any other factor beyond the aforementioned factors.

304. In this regard, I find that there is no allegation of any unfair gain made by any of

the *Noticees no. 1 to 6* in the present matter. Any unfair increment in the pay and perks of *Noticees no. 1 to 5*, as a result of their acts to fraudulently show consistent and rapid growth of the *Company*, have also not been quantified either in the FAR or in SEBI's investigation report. However, it is a matter of fact that, in order to correct the impact of those fraudulent acts of showing artificial inflated profits and to reverse the fictitious revenues and profits showed by the *Company* during the investigation period, the *Company* had disclosed losses to the extent of INR 1123 Crores after the entire fraudulent scheme got exposed. At the same time, to help the *Company* recover from the said losses, the promoters had to infuse funds to the tune of INR 1123 crores in the *Company*. As discovered from the investigation, the acts of fabrication of books of accounts had continued for a long period of five financial years. Thus, such fabrication of accounts was not a one-time exercise but was repeated continuously and *Noticees no. 1, 2* and *3* have also repeatedly disclosed fabricated financial results on BSE under their signature. Under the circumstances, I have to consider all these factors in deciding penalty in the present matter.

Directions

305. Having carefully considered the facts and evidences available on record against the *Noticees*, the circumstances surrounding the violations committed by the *Noticees no. 1 to 6* and the submissions advanced by the *Noticees* as well as following the principles of preponderance of probabilities, I hold that the charges relating to violation of the provisions of the SEBI Act, the PFUTP Regulations and Equity Listing Agreement as brought out in detail in this order are found to have been substantially established. At this stage, I am also cognisant of the fact that in this case various orders have been passed at different times viz; Interim Order dated February 12, 2018, Confirmatory order dated August 16, 2018 as well as Order dated January 29, 2020 passed by the Hon'ble Tribunal whereby the

directions issued under the Interim and Confirmatory orders have been partly modified. I also note that the restraints so placed earlier are still continuing qua *Noticees no. 1, 3* and *4* whereas the restraints against *Noticee no. 6* are running concurrently in the light of similar directions issued vide SEBI's another Order dated July 06, 2020 in the matter of insider trading in the scrip of RIL. However, the restraint imposed upon *Noticees no. 2* & *5* vide Interim Order dated February 12, 2018 were lifted by Hon'ble SAT in its order dated January 29, 2020 on the ground of delay in completion of investigation. Hence, considering the gravity of the violations found established against the *Noticees no. 1 to 6* and period of debarment already undergone, I am of the view that to meet the ends of justice, it will be sufficient to pass the following directions, while exercising the powers conferred upon me under Section 11(1), 11(4), and 11B(1) read with Section 19 of the SEBI Act and Section 12A(2) of the SCRA and therefore, I pass the following directions:

305.1. *Noticee no. 1 to 6* are hereby restrained from holding the post of director, or any key managerial position or associating themselves in any capacity with any listed public company and any public company which intends to raise money from the public, or any intermediary registered with SEBI for a period of 5 years.

305.2. *Noticees no. 1, 3, 4*, and *6* are restrained from accessing the securities market and further are prohibited from buying, selling or otherwise dealing in securities (including units of mutual funds), directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of 5 years. The period already undergone by them by virtue of Interim Order dated February 18, 2018 shall be allowed to be set-off from this period.

305.3. *Noticees no. 2* and *5* are restrained from accessing the securities market and

further are prohibited from buying, selling or otherwise dealing in securities (including units of mutual funds), directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of 3 years from the date of this Order.

305.4. In addition to the aforementioned directions, the following penalties are also hereby being imposed upon the *Noticees no. 1 to 6* due to their violation of relevant provisions of law, as mentioned below:

Entity	**Provisions of law violated**	**Penal Provision**	**Quantum of penalty**
Mr. Manoj Kumar	Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations	Section 15HA of SEBI Act	INR 10 Lakh
	Clause 49(V) & clause 41(II) of the Equity Listing Agreement read with section 21 of SCRA	Section 23H of SCRA	INR 5 Lakh
Mr. T Takano	Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations	Section 15HA of SEBI Act	INR 50 Lakh
	Clause 49(V) & clause 41(II) of the Equity Listing Agreement read with section 21 of SCRA	Section 23H of SCRA	INR 10 Lakh

Mr. Arvind Singhal	Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations	Section 15HA of SEBI Act	INR 10 Lakh
	Clause 49(V) & clause 41(II) of the Equity Listing Agreement read with section 21 of SCRA	Section 23H of SCRA	INR 5 Lakh
Mr. Anil Saini	Sections 12A(a), 12A(b), 12A(c) of SEBI Act read with regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations	Section 15HA of SEBI Act	INR 10 Lakh
Mr. A T Rajan			INR 10 Lakh
Mr. Amalendu Mukherjee			INR 50 Lakh

306. The *Noticees no. 1 to 6* are directed to pay the penalty as detailed above within 45 (forty-five) days from the date of service of this order by way of crossed demand draft drawn in favour of "SEBI–Penalties remittable to Government of India", payable at Mumbai, or by online payment through following path on the SEBI website: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairman/ Members → Click on PAY NOW or at the linkhttps://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html. The aforementioned *Noticees* shall forward the demand draft or the details/confirmation of penalty so paid through e-payment to "The Division Chief, Supervision, Enforcement and Complaints Cell (SEC-1), Corporation Finance Investigation Department, Securities and Exchange Board of India, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C -7, "G"

Block, Bandra Kurla Complex, Bandra (E), Mumbai- 400051" in the format given in the Table below:

Case name	
Name of payee	
Date of payment	
Amount paid	
Transaction no	
Bank details in which payment is made	
Payment is made for	Penalty

307. The Order shall come into force with the immediate effect.

308. A copy of this order shall be served upon the *Noticees*, Stock Exchanges, Depositories and Registrar and Share Transfer Agents of all Mutual Funds for ensuring compliance with the above direction. At the same time, it is directed that a certified copy of this order be sent to President, ICAI for his perusal.

Sd/-

Date: January 30, 2023 **S. K. MOHANTY**

Place: Mumbai **Whole Time Member**

Securities And Exchange Board Of India

WTM/SM/CFID/CFID2/23317/2022-23

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: S K MOHANTY, WHOLE TIME MEMBER

CORRIGENDUM TO THE ORDER DATED JANUARY 30, 2023 BEARING REFERENCE NUMBER WTM/SM/CFID/CFID2/23245/2022-23 IN THE MATTER OF RICOH INDIA LIMITED

1. Securities and Exchange Board of India ("**SEBI"**) has passed Final Order dated January 30, 2023 bearing reference numbers WTM/SM/CFID/CFID2/23245/2022-23 in the matter of Ricoh India Limited.

2. In the said Order, at paragraph no. 30 on Page 27 and at paragraph no. 305.2 at page 213 the date of Interim Order has been inadvertently mentioned as February 18, 2018. In both these places, it shall be read as "Interim Order dated February 12, 2018".

3. The Order dated January 30, 2023 bearing reference numbers WTM/SM/CFID/CFID2/23245/2022-23 shall always be read with this corrigendum.

Sd/-

DATE: January 31, 2023 **S.K. MOHANTY**

PLACE: MUMBAI **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA