

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Sections 11, 11(4) and 11B (1) of the Securities and Exchange Board of India Act,
1992

In Re: Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair
Trade Practices Relating to Securities Market) Regulations, 2003

In respect of

Noticee No.	Name of the Entities	PAN
1	Coral Hub Limited	AAACS7326Q
2	Mr. G.S. Chandrashekar	ACCPG6727C
3	Mr. Dilip C Parekh	AACPP4242P
4	Mr. G.S. Vishwanatham	AAZPV0140R
5	Mr. D M Shirodkar	ABVPS3771Q
6	Mr. Harish Sahu	ACKPS6919E
7	Mr. Ghanshyam Joshi	ADCPJ1416A

(The aforesaid entities are hereinafter individually referred to by their respective names / Noticee nos. and collectively referred to as “**Noticees**”)

In the matter of Coral Hub Limited

BACKGROUND

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) received a complaint, *inter alia*, alleging that revenues and profit of Coral Hub Limited (hereinafter referred to as “**CHL**” or “**the company**”) were fabricated and artificial.
2. Thereafter, SEBI conducted an investigation into the matter for the period from April 1, 2008 to June 30, 2010 (hereinafter referred to as “**Investigation Period**” / “**IP**”) to ascertain the violations, if any, of the provisions of SEBI Act, 1992, SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations,

2003 (hereinafter referred to as “**PFUTP Regulation**”) and Securities Contracts (Regulations) Act, 1956 (hereinafter referred to as “**SCR Act, 1956**”).

3. Upon investigation in the matter of CHL, it was observed that the Noticees (a) published false, inflated and misleading financial results during the Financial Year (FY) 2008-09 and 2009-10 i.e. false and inflated figures of sales were shown and correspondingly figures of profit carried over in the Balance Sheet were also inflated; (b) failed to disclose the sales made to related parties in the Annual Report for FY 2009-10 under related party transactions; and (c) not conducted the board meetings in accordance with the provisions of the listing agreement.

SHOW CAUSE NOTICE

4. Thereafter, a Common Show Cause Notice (hereinafter referred to as ‘SCN’) dated October 30, 2015 was issued to the Noticees (7 entities) in the matter of CHL to show cause as to why suitable directions under Sections 11(4) and 11B of the SEBI Act, 1992 should not be issued against Noticees for the alleged violations of provision of Sections 12A(a), (b) and (c) of SEBI Act, 1992 read with Regulations 3, (b), (c), (d), 4(1), 4(2)(e), (f), (k) & (r) of PFUTP Regulations and Clause 32 & 49 of Listing Agreement read with Section 21 of SCR Act, 1956.
5. The observation and allegation mentioned in the SCN dated October 30, 2015 in brief are as under:

Allegation in respect of publication of false, inflated and misleading financial results:

- 5.1. As per the Annual Report 2009-10, the following were the amount of sales and profits of CHL (standalone financials excluding that of its subsidiaries) for 2008-09 (12 months) and 2009-10 (15 months):

Table No. 1

Particulars	2008-2009 (12 months)	2009-10 (15 months)
Sales	Rs. 61,08,57,165	Rs. 88,36,78,263
Net Profit after tax	Rs. 14,65,67,035	Rs. 20,11,46,296

- 5.2. The customer wise sales for FY 2008- 09 and 2009-10 was provided by CHL vide its letter dated July 15, 2010. Upon perusal of same following is noted:

5.3. Food And Agriculture Organisation, UN (FAO UN):

- 5.3.1. FAO UN contributed 16.82% (Rs. 10,27,66,020) and 38.71% (Rs. 29,42,58,799) of the total sales for FY 2008-09 and FY 2009-10 respectively. Total sales contributed by FAO UN for FY 2008-09 and FY 2009-10 was approx. Rs. 39.70 crore.
- 5.3.2. As per FAO UN email dated October 23, 2013, total amount paid to CHL from July 2001 till December 2009 under the contract was US\$ 2,98,301.50. (Taking the conversion ratio @ Rs. 50/dollar), the total amount paid to CHL in Rs. comes up to Rs.1,49,15,075/-.
- 5.3.3. Thus, the amount of sales to FAO UN by CHL for FY 2008-09 and FY 2009-10 were inflated and incorrect to the extent of Rs. 38.22 crore.

5.4. NDS USA LLC

- 5.4.1. NDS USA LLC contributed 23.34% (Rs. 14,25,52,112) and 24.64% (Rs. 18,73,38,148) of the total sales for FY 2008-09 and FY 2009-10 respectively. Total sales contributed by NDS USA LLC for FY 2008-09 and FY 2009-10 was approx. Rs. 32.99 crore.
- 5.4.2. Vide email dated October 07, 2013, NDS USA LLC stated that it was a client of CHL prior to and until May 2007 where CHL offered them IT enabled services and last payments were made to CHL in the month of June 2007.
- 5.4.3. Thus, the amount of sales to NDS USA LLC by CHL for FY 2008-09 and FY 2009-10 were inflated and incorrect to the extent of Rs. 32.99 crore.

- 5.5. Thus, it is alleged that Noticees had shown inflated figures of sales of Rs. 38.22 Cr (approx.) to FAO UN and Rs. 32.99 Cr (approx.) to NDS USA LLC which contributed a total of Rs. 71.21 Cr (approx.), which is 51.90% of the total sales for the FY 2008-09 and FY 2009 - 10. Correspondingly the figures of profit carried over in the Balance Sheet were also inflated.
- 5.6. Hence, in view of the above, it is alleged that Noticees had violated the provision of Section 12 A (a), (b) and (c) of SEBI Act, 1992, Regulation 3 (b), (c) and (d) and 4(1) and 4 (2) (e), (f), (k) and (r) of PFUTP Regulations.

Allegation in respect of Related Party Transaction:

- 5.7. It is observed that three entities viz., Raydox Technologies FZ LLC (hereinafter referred to as “**Raydox**”), Avington Solutions Ltd. (UK) (hereinafter referred to as “**Avington**”) and Rochelle Associates Ltd. (UK) (hereinafter referred to as “**Rochelle**”) together have contributed to 37.57% and 33.32% of the total sales during 2008-09 and 2009-10 respectively.
- 5.8. M/s Tutis Technologies Ltd. (hereinafter referred to as “**TTL**” / “**Tutis**”) is promoter entity of CHL. Mr. Anthony Lopes, Manager-Administration with TTL was director in Raydox, Avington and Rochelle.
- 5.9. As per Mr. Anthony Lopes written statement dated June 5, 2013 and Mr. Suthesh Nair, Vice President Finance of CHL written statement dated April 23, 2013, Raydox, Avington and Rochelle were companies set up and controlled by the directors of CHL namely G.S. Viswanathan, G.S. Chandrasekhar and Dilip C Parekh. Hence, these companies were related to the Directors of CHL.
- 5.10. Thus, it is alleged, being related parties of CHL, the sales made to Raydox, Avington and Rochelle should have been disclosed in the Annual Report (2009-10) under related party transactions, which CHL had failed to do so. Hence, it was alleged that CHL and its directors has violated provisions of clause 32 of the Listing agreement read with Section 21 of the SCRA, 1956.

Allegation in respect of Mis-statement regarding Board Meeting:

- 5.11. In Annual Report of CHL for FY 2009-10, it is mentioned that there were 15 Board meetings held during the FY 2009-10, out of which Mr. D M Shirodkar, Mr Harish Sahu and Mr. Ghanshyam Joshi had attended 5, 12 & 15 board meetings respectively. However, Mr. D M Shirodkar, Mr Harish Sahu & Mr. Ghanshyam Joshi had confirmed to SEBI that they have never attended any board meetings.
- 5.12. Dilip C Parekh vide his written statement dated April 12, 2013 confirmed that there used to be no formal board meetings held by CHL since April 2008.
- 5.13. Thus, in view of the above observation, it is alleged that there were no Board Meetings held by CHL during the FY 2008-09 and 2009-10. Hence, it is alleged

that CHL and its directors have violated the provision of clause 49 of the listing agreement read with Section 21 of the SCRA 1956.

6. **Delivery of SCN:** The SCN dated October 30, 2015 was sent to the all Noticees at their last known available address and same was delivered to Noticee No. 2 to 7. The SCN dated October 30, 2015 was delivered to CHL (Noticee No. 1) through affixture and proof of delivery is available on record.

REPLY:

7. **Noticee No. 1** did submit any reply to the SCN.
8. **Noticee No. 2** [G.S. Chandrashekar (GSC)] vide letters dated November 18, 2015 and December 28, 2015 submitted his reply in the matter, which in brief are as under:
- 8.1. GSC was Non-Executive Director of the company right from inception.
- 8.2. Day to day working of CHL including marketing, finance, administration and company law matters were handled / controlled by DCP who was Whole Time Director of CHL for 14 years. All Company records were kept in the Corporate Office in Mumbai and DCP had the control of all records including accounts, finance and its correspondence, marketing, customer correspondence, minute books, all company Board meeting, AGM & EGM related matters and all Company Law matters. DCP was signatory to all bank accounts of Tutis & CHL and controlled Accounts, Finance, Sales & Administration of CHL. All the employees in Sales, Accounts, Finance & Administration acted on DCP instructions. Thus, DCP was able to influence and carry out his fraudulent designs in CHL to make personal gains. GSC was living in UK most of the time and had no knowledge of what is happening back in India in regard to CHL.
- 8.3. Further, DCP continued to sit in the same office until end of 2014 (i.e. more than one year) after his purported resignation from whole time director of the company in July 2012. Therefore, DCP had altered, and destroyed all records to his advantage.
- 8.4. With regard to the statement of auditors KP Joshi (KPJ), it is submitted that GSC never met KPJ during or after the audit of CHL. He has never influenced KPJ to sign the accounts of CHL. He never ever discussed about sales or invoices of CHL during audit process. Auditors are supposed to go through the facts and cannot rely on someone's statement. Therefore, KPJ statement that he relied on GSC statement is wrong and fabricated
- 8.5. With regard to DCP statement, it is submitted that:

- 8.5.1. DCP was seasoned businessmen running successful trading companies and also shrewd investor in the stock market. DCP is not naive or innocent as he claims to be in his statement to SEBI. He was aware that he has done wrong doing in CHL and to cover up his misdeeds, he either under instruction from a legal advisor or of his own with cunningness has answered all questions of SEBI by showing complete ignorance and acting stupidly in CHL and all instructions coming from GSC, so that no further questions can come from SEBI.
- 8.5.2. DCP wanted to transfer all blames on GSC for all misdeeds which DCP created in CHL without any of the director's knowledge. DCP acted smartly by giving only oral instructions to employees and even made employees to write emails from their email id whether it is marketing, sales, invoicing, accounting, finance, correspondence with bank or company secretarial matters so that nothing will come on DCP even if any authorities found these misdeeds.
- 8.6. With regard to **Sales to Related Companies**, Raydox, Avington and Rochelle, it is submitted that:
- 8.6.1. Mr. Anthony Lopes in order to cover his back, could have given false statement so that he can get out of the problem of SEBI investigation.
- 8.6.2. GSC was director of Raydox between 2003 & 2007. GSC resigned from the directorship in 2007. Thereafter, Anthony became director of Raydox and he continued to be the director. Certificate of Lease from Dubai Internet City Authority for 2008 & 2009 with Mr. Anthony's name to prove he was managing the company all by himself is enclosed.
- 8.6.3. When Anthony was director of Raydox, he was not an employee of Tutis or CHL.
- 8.6.4. GSC have no ownership interest in Raydox and never had signing authority of bank accounts of Raydox. He was not giving any instructions to Mr. Anthony Lopes in regard to operations of Raydox anytime during 2008 to 2012.
- 8.6.5. GSC would have given some advice on Raydox but it was not necessary on the part of Mr. Anthony Lopes to act on his advice. He never asked or compelled Mr. Anthony to ask for his advice.
- 8.6.6. GSC was not aware that DCP was handling day to day management of Raydox between the periods 2008 to 2012. If DCP was handling affairs of Raydox, then he had done without the knowledge of CHL Board or any of the directors of CHL and has done in his own personal capacity and it was DCP duty to inform CHL Board about his indirect interest in Raydox. If Director do not inform the Board, than that individual director is at fault and not company or its Board of Directors. CHL or its other directors had no knowledge about DCP's act and hence they cannot be made responsible for such act of omission

& commission by DCP who acted independently without CHL or its Board's knowledge. DCP alone be responsible for this act.

- 8.6.7. GSC deny the statement made by Mr. Anthony Lopes claiming that he was acting under GSC instructions in regard to affairs of Avington. GSC would like to call upon Anthony to prove his statement with sufficient documentary evidence about his involvement in Avington. GSC do not directly or indirectly own any shares in Avington nor had any control over Avington's bank account and have no signing authority in any of the bank accounts of Avington. Avington Solutions was neither promoted nor set by GSC or GSV or DCP as claimed by Mr. Anthony Lopes. Anthony is giving false statement to escape indictment if any. Avington is not an UK incorporated company. GSC is not aware of any sales made to Avington as he was not involved in sales and marketing of CHL. Even if CHL had made sales to Avington, GSC deny that sales was made to related party as none of the directors of CHL was involved in Avington affairs directly or indirectly
- 8.6.8. Rochelle is not an UK incorporated company. GSC have no connection with Rochelle either directly or indirectly and have no signing authority in any of the bank accounts of Rochelle. GSC or his family do not hold any shares in Rochelle and hence GSC have no control over Rochelle directly or indirectly.
- 8.7. With regard to **inflated sales**, it is submitted that:
- 8.7.1. FAO & NDS USA LLC were clients of CHL dating back to the year 2001 & 2004 respectively. Contract with FAO ran for almost 10 years. DCP who was in charge of Sales used to inform CHL Board that CHL gets work from FAO offices globally. Similarly, NDS USA LLC used to give large projects to CHL from 2004. Two of NDS representatives sit in CHL office to oversee the production. DCP on a day to day basis used to interact with representatives of NDS on orders, production, delivery and collections. DCP used to inform the Board about receipt of large contracts from NDS.
- 8.7.2. DCP alone is responsible for such inflated invoices. Other directors of CHL rely on WTO of CHL i.e. DCP who was in charge of sales, accounts and finance, production, administration from year 2000 till July 2012. Accounts department prepared invoices based on DCP's instructions. All accounting is done under supervision and guidance of DCP. Accounts department prepares monthly & quarterly accounts and sent to DCP who approves these account figures.
- 8.7.3. Assuming SEBI's findings are true, DCP was responsible for this because, DCP, WTD of CHL was controlling sales, accounts, finance, and administration department of CHL and had singular signing authority for all bank transactions of all bank accounts of the company. Moreover production of FAO & NDS USA LLC was happening from Mumbai where DCP was overseeing the production. So DCP could have made fake PO of the client,

fudged production records and accordingly instructed accounts to prepare invoices and would have convinced auditors about the genuineness of sales. Thereafter, DCP destroyed all these records because after submission of his resignation in June 2012 as DCP was operating from the same office for atleast 12 months where the records were kept.

8.8. With regard to **misstatements regarding board meetings**, it is submitted that:

- 8.8.1. The observation by SEBI that there were no Board Meetings conducted by CHL in 2008- 09 & 2009-10 is not correct. SCN from SEBI is based on statements given by DCP & Independent Directors namely Mr. Joshi, Mr, Sahu & Mr. Shirodhar which is false and misleading. Independent Directors have given these statements in order to protect themselves from any punitive action by SEBI.
- 8.8.2. Mr. Joshi & Mr. Sahu are DCP's best family friends for many years. They agreed to become directors of CHL because of their best friendship. In order to save his friends, DCP gave false statement to SEBI stating that no Board Meetings were conducted.
- 8.8.3. DCP would have destroyed attendance register, Board Minute books and other ROC files since these records were all kept in the same office where DCP was operating his duties even after submission of his resignation from CHL in July 2012.
- 8.8.4. GSC submitted following facts which demonstrate that Board Meetings in CHL had happened:
 - 8.8.4.1. He received Notice & Agenda of Board Meetings of CHL posted to directors and he had attended meetings. Board meeting was always conducted by DCP as he was WTD of CHL in charge of all functions for almost 14 years.
 - 8.8.4.2. Mr. Sahu, Mr. Joshi & Mr. Shirodhar have attended many Board Meetings in Mumbai. GSC travelled with Mr. DCP & Mr. Joshi to Chennai to attend Board Meetings, EGM & AGM. Mr. Shirodhar has come to Chennai to attend Board Meetings, AGM & EGM.
 - 8.8.4.3. GSC has taken Mr. Shirodhar for lunch or dinner after the Board Meetings. DCP has taken out Mr. Joshi & Mr. Sahu for lunch. DCP handed money to Mr. Joshi, Mr. Sahu Mr. Shirodhar for their travelling expenses and Board meeting fees.
 - 8.8.4.4. There was attendance register for Board Meetings where every directors have signed it. Minutes of the Board Meetings were prepared. DCP would have destroyed all Company Law records of the company including Minute Books & Attendance Register to protect his director friends.
 - 8.8.4.5. GSC had copy of some board meeting Minutes either signed or unsigned, which GSC have submitted to SEBI in April 2013.

- 8.9. On basis of following submission DCP got benefit of inflated sales & inflated profits reported by CHL:
- 8.9.1. DCP was also controlling CHL Board through majority number of director which support of him. Further, DCP through himself, family, friends & associates were holding more than 40% in Tutis and thereby he was controlling indirectly CHL's shareholding. Apart from shareholding control, DCP had management control in CHL as he was WTD of CHL for more than 12 years, control of all bank accounts and also control of accounts, audit, finance, company law matters, production, sales and administration.
- 8.9.2. In CHL many of DCP relatives, friends and associates had huge shareholding. Between 30.09.2008 and 24.10.2010 many of DCP associates sold CHL shares at very high price, thereby made huge profits. DCP was an investment strategist and had huge investment. DCP was regularly trading in shares of CHL through his friends and associates. After listing of CHL, DCP's wife & his son have sold shares of CHL at a very high price and have realized more than Rs. 2 crores during this period. Only DCP and his family members, friends and associates have profited from CHL shares due to these inflated sales and profits.
- 8.10. GSC or other director have not benefitted in any way from these inflated sales. GSC was not holding any shares in CHL till March 2009, he got 3,239 shares of CHL in March 2009. He did not sell any shares. GSC being promoter of Tutis, have not sold any shares of Tutis during said period. Nor price of Tutis shares went up during said period due to sharp increase in prices of CHL. None of GSC family members were holding any shares in CHL right from inception and nor they sold any shares in Tutis during said period. Therefore, GSC or his family members or friends have not benefitted in any way with share price movements of CHL. Mr. Shirodkar, Mr. Joshi and Mr. Sahu were not holding any shares in CHL at any point of time. GSV was holding 30 lac shares (now 3 lac shares after consolidation of FV to Rs.10) in CHL during said period but he never sold these shares.
- 8.11. On the basis of following submission, Other Directors of CHL cannot be held responsible:
- 8.11.1. It is a case of acts & omission and fraud perpetrated by DCP on CHL and other directors by inflating sales of the company. Every other director of the company is innocent and not even aware of such happenings in the company till SEBI found in the SCN. All Directors of CHL had full faith and trust on DCP and whatever DCP does they accept it in good faith. But DCP as rogue director was working behind their back and without other director's knowledge DCP has inflated the sales to gain personal benefit and to the benefit of his family, friends, associates and his broking company and its investors in CHL shares.

- 8.11.2. If inflated sales has been found in SEBI investigation, then DCP alone has failed in his fiduciary responsibility towards the company, its shareholders and directors who have relied on him all these 12 years of his tenure as WTD of CHL in charge of finance & accounts. Therefore, violation of various clauses of SEBI Act and Rules is applicable only to DCP and not to other directors of the company who all acted in good faith and trust reposed on DCP
- 8.12. It is submitted that GSC statements or other annexures in support of GSC replies submitted during investigation are not attached with SCN while statement of Mr. Anthony Lopes, Mr. Suthesh Nair, Mr.KP Joshi & Mr.Dilip C Parekh and email statements of Mr. Sahu, Mr. Joshi & Mr. Shirodkar are attached. This action of SEBI for not attaching his statements & other documents as part of SCN is unfair.
- 8.13. GSC deny that he violated any provisions of SEBI Act of 1992 read with PFUTP Regulations of 2003 or Clause 32 or 49 of the Listing Agreement read with Section 21 of SCRA as alleged in the SCN.
9. **Noticee No. 3** [Dilip C Parekh (DCP)] vide letters dated November 23, 2015, January 08, 2016, January 15, 2016, January 18, 2016 and February 10, 2016 submitted his reply in the matter, which in brief are as under:
- 9.1. With regard to DCP resignation, he submitted that he was pressurized to sign many papers when he refused his remuneration was stopped and then he had resigned from directorship of company effective from 05.07.2012.
- 9.2. GSC was taking functional decisions, financial decisions, discussions with financiers and dealing with the overseas bankers and parties. GSC alone has dealt with UN parties or the bankers and other agents for GDR. GSC have doctored the documents and figures to suit to his moves, to cheat the public, to cheat his own Directors and personnel and make money for himself and his relatives. GSC used to deal with all the parties mentioned in the SCN and the figures given by GSC were merely put in records without verifications by the other Directors and professionals.
- 9.3. DCP had no role to play in the affairs of CHL. For the legally required number of Directors on the Board, DCP was taken and handling banking operations. DCP did not know the technicalities of the business carried in the IT filed of the financial dealings including the processes of raising funds domestically or overseas.
- 9.4. Every movement in the company was designed and directed by GSC. Mr. G S Chandrasekhar, Mr Suthesh Nair, Mr. Lopes and Mrs. Amita Desai worked in close contact. These people did whatever GSC would like them to do mainly in getting the signatures of the personnel including DCP, the signatures of the professionals either by paying heavy fee or using the relationship and goading them to sign the documents including the audit and accounts. The Directors were used as a ploy for getting various compliant reports and certifications from various professional authorities and for submitting the documents to various authorities. GSC used the

personnel who were not connected with his family to sign any documents to be filed with the authorities.

- 9.5. GSC give management letter's back to back signed by one or the other Directors not himself and or his relative Mr. Vishwanath and get the certifications and other reports required by CHL to file before various forums. GSC has used DCP for such signatures. Wherever one could get exposed to the authorities, GSC has excluded himself and his family member Mr. Vishwanathan. GSC decided which paper has to be decided by whom and therefore, he and his family members always saved from legal problem.
- 9.6. Mr. Suthesh and Mr Lopes have worked to appease Mr. G S Chandrasekhar for any gains and DCP was made a scapegoat after getting his signatures to various documents and accounts. DCP was never informed of any ongoing. DCP did not know any details and on questioning to know the details, DCP was replied that the professionals have approved and DCP have only to sign. Beyond this DCP did not involve in the affairs of CHL.
- 9.7. The statements of Mr. Suthesh Nair and Mr. Lopes that decisions were taken by Mr. G S Chandrasekhar as the Chairman and myself as a Director was true. It is true that he had signed various information papers, Annual accounts merely based on the faith and words of GSC that everything was alright and he should sign. He followed GSC blindly.
- 9.8. DCP never thought that GSC as a Senior Chartered Accountant would do such serious mistakes in accounting and reporting to various authorities. DCP had been dumb with great faith laid in GSC fully believing that GSC would not do any misdeeds. Anyone who was associated with GSC did not wish to take blame on them and therefore they have pointed their fingers towards DCP also. DCP did not know that GSC had ulterior motives in carrying various activities of the company including raising finances through banks, private parties and or GDRs. GSC never allowed anybody else to operate in that area.
- 9.9. With regard to the financial dealings, it was solely GSC who dealt with the issues domestically within India or overseas. There are various instances as the emails correspondence that would show that it was GSC was deciding who should sign the financial statements and/or other reports. These emails demonstrated how the affairs of the company were conducted by GSC. The copy of various emails are submitted. It was GSC who decided what should be told to Auditors and what not and managed getting signatures from the Auditors and/ or Company Secretaries. There are emails which directed Mr. Suthesh to find alternative Company Secretaries practicing who can give certificates. GSC was able to convince even the professionals to sign papers by taking back to back certificate from the management.
- 9.10. One Mr. Suthesh Nair as Chartered Accountant and Ms. Amita Desai as Company Secretary who formed as a close group to doctor the documents as may be required to satisfy the authorities. The email of Ms. Amita Desai dated 6.9.2011 (copy

submitted) addressed to Mr. Suthesh and Mr. Chandrashekhar concerning Corporate Governance records to get “back to back” letter of management to support certification by Company Secretary Mr. Mitesh.

- 9.11.DCP has not been involved in any decision or to be taken by CHL and everything has been handled by GSC and his team. All and every decision was being taken by GSC who was acting as if CHL was his proprietary concern. DCP among others was used as a soft tool to get signatures on various papers as and when GSC wanted. It is only for the purpose of company law compliance people were made Directors without any responsibility, without any respect they were paid employees called Directors or for getting the remuneration they were to sign papers at the fancy of GSC who managed the entire affairs of the company.
- 9.12.DCP had submitted copy of various emails which were written by GSC to Suthesh, Amita Desai, Hemant and GSV. There have been no emails or communications from GSC to DCP. All mails are to GSC close associates Mr. Suthesh Nair, Ms. Amita Desai and others, of course, in many cases with instructions to them to take DCP signature and/ or other professionals and at times instructing that the signature of Mr. Vishwanathan his brother and a relative should not be taken. GSC had not written emails on company matters to DCP. If DCP was included in the company matter then GSC would have written email to DCP.
- 9.13.DCP had no resources to be in pursuit of Mr. G S Chandrasekhar and or to book GSC, due to his failing health, age and health complications which have been aggravated due to tensions unleashed by Mr. G S Chandrasekhar by his illegal and unethical acts.

10. Noticee No. 4 [G.S. Vishwanatham (GSV)] vide letters dated November 17, 2015 and December 02, 2015 submitted his reply in the matter, which in brief are as under:

- 10.1. In the year 1999 - 2000, he was offered to be Director of Vishal Information Technologies Limited (VITL) (later known as Coral Hub Limited or CHL) to take care of projects they used to get from Government of Gujarat on supply of PCs & teaching operation of computers to Government employees of various departments. He resigned from CHL on August 31, 2010.
- 10.2. His dealings with VITL / CHL was purely professional and his responsibility restricted to technical aspects. He had no idea about and was never involved in accounts, finance, funding or marketing or commercial dealings of the company with clients, vendors, banks or any party to do with commercials. He do not take any decision independently and all technical aspects like investments in hardware, software and other capital expenditure is taken after due authorization from the Board.

- 10.3. The Finance Department prepares the quarterly results and thereafter discuss with DCP and then it is accepted. No advance intimation or details of results circulated were to Board. However, Board Members accepted the same at face value
- 10.4. He was not aware of quantum of billing and the Finance department knows details of invoicing. Finance Department never used to give client wise sales to the Board and none of the Board Members ever asked.
- 10.5. He remembered that CHL has handled production and delivered output to FAO, NDS USA, Raydox, RNIB. CHL have delivered large output to them.
- 10.6. He confirmed that both FAO & NDS USA LLC were clients of the company as he was involved in production and delivery of data to these clients but he had no idea of commercials as invoicing and collections are handled by Finance and Accounts. Mr. Suthesh Nair VP Finance & Accounts of the Company has confirmed in his statement that he prepared the invoices to clients based on instructions received from DCP.
- 10.7. He is of the opinion that there could be some misunderstanding in SEBI assessment as FAO had many offices globally and they used to deliver output to various offices. He is shocked to see in SCN of such gross misstatement in the Annual Accounts which he is not aware of. Assuming if SEBI's findings are true, then he is shocked and he as director of VITL / CHL is not party to such gross misstatement & frauds.
- 10.8. They as director who have no knowledge on finance or accounts rely on audit statement. He is surprised by Mr. K P Joshi's statement that he trusted GSC & Suthesh Nair for figures shown by the company. Mr. K P Joshi was unable to produce his notes shows his unprofessional attitude. The audit committee report is relied upon to approve the accounts of the company in the Board meeting. Therefore, he should not be indicted as he relied on the face value of auditors submissions of report to the Board. Auditor, a professional accountant who has specialized knowledge on Accounts and Finance is expected to find inflated sales. A person like him who has no idea about accounts cannot have doubt about the Company's accounts when presented to the Board for approval if auditor himself approves the same.
- 10.9. He had no idea about ownership & control of Avington Solutions Limited or Rochelle Associates and had no knowledge about their existence. Hence, he was not be able to comment on any dealings made by VITL / CHL with these companies.
- 10.10. He agrees that in 2003 in UAE, Raydox was formed by him & GSC. He became the director along with Mr. Vijay Iyer and GSC represented as investors from UK. He left Raydox by end of 2005 and came back to VITL Chennai and GSC resigned as director of Raydox around that time. Thereafter, he had no connection with Raydox in regard to operations or management whatsoever. He was not aware of commercial dealings and this was solely handled by DCP and his team. Anthony

Lopes was the director of Raydox and had work permit from Raydox UAE and was controlling Raydox and also was signatory to the bank accounts of Raydox. He was never consulted by continuing directors nor have he influenced Raydox or directors in their business. Thus, Raydox has no link with CHL. If any other director of VITL / CHL influenced Raydox decision making or controlled, it was their independent personal decision which he is not aware of and in the Board meeting of VITL / CHL this was never discussed. Thus, neither the company nor other directors of the company can be indicted.

- 10.11. CHL used to do large projects with Raydox on digitising out of copy right books into print ready PDF. He had no idea about value or quantity as he was not involved in commercial aspects and was never involved on invoicing.
- 10.12. He denied the allegation that he had any control over Raydox by acting as director of VITL / CHL. He denied that Raydox is a related party to CHL directly or indirectly. CHL has no investment in Raydox and is not directly related as CHL.
- 10.13. The statement of Mr. Suthesh Nair doesn't mention that Mr. Anthony Lopes was acting under instructions from him or GSC. He has mentioned that DCP was managing day to day affairs of Raydox. If it is true then DCP has acted independently without informing other directors of Coral Hub.
- 10.14. Therefore, SEBI sending a show cause notice to directors citing violation of clause 32 of listing agreement based on statement made by Mr. Anthony Lopes is wrong as Mr. Lopes could have given a misstatement or wrong declaration.
- 10.15. The statement by Mr. Harish Sahu, Mr. Ghanshyam Joshi & Mr. D M Shirodkar that they have not attended any Board meetings of CHL is incorrect. He had seen them in the office and they have attended Board meetings. They have also signed attendance register. They have collected sitting fees and travelling expenses by way of cash from DCP. He had seen Mr. Sahu & Mr. Joshi going with DCP for lunch after Board Meeting or before Board Meetings and Mr. Shirodkar going for lunch with GSC. Sometime he had also accompanied them for lunch. Mr. Joshi & Mr. Shirodkar has also attending Board Meetings, AGM & EGM in Chennai whenever it was conducted in Chennai.
- 10.16. DCP is incorrect in his statement where he mentions no Board meetings were conducted and he signed attendance register later for many Board meetings. This shows that DCP is protecting Mr. Sahu & Mr. Joshi who are his close friends.
- 10.17. SEBI cannot conclude merely based on the statements of Mr. Sahu, Mr. Joshi & Mr. Shirodkar and supported by DCP that no Board Meetings were held. If SEBI can conclude on mere statements of Mr. Sahu, Mr. Joshi & Mr. Shirodkar, then he request that his statement should be taken in record that Board Meetings were held and he confirm that Mr. Sahu, Mr. Joshi & Mr. Shirodkar were seen attending Board meetings. He had also seen them signing attendance register and getting sitting fees and travelling expenses from DCP.

- 10.18. He denied that VITL / CHL had violated Section 49 of the Listing Agreement as Board Meetings were held and DCP has even chaired meetings in the absence of Shirodkar till August 2010. Independent Directors namely Mr. Sahu, Mr. Joshi & Mr. Shirodkar has attended
- 10.19. Further, if he had acted in concert to perpetrate this fraud, then he should have had benefit out of this. He had so far sold some 15,000 shares for his wife's treatment. Currently he hold round about 2,85,000 shares of CHL which has no value. Company never paid him any gratuity for 10 years of services and nor he had any PF or Pension contribution from the company.
- 10.20. The Finance director DCP has been benefitted by CHL price movements as he has big investment in the stock market through himself & his family members.
- 10.21. Further, DCP resigned as whole time director of CHL in July / August 2012 but he continued to occupy the same office at least for next 18 / 24 months when he was managing Tutis Technologies Limited and was handling both companies.
- 11. Noticee No. 5 [D M Shirodkar (DMS)]** vide letters dated November 21, 2015, December 14, 2015 and January 12, 2016 submitted his reply in the matter, which in brief are as under:
- 11.1. He is 81 years old and his wife is 76 year old. In December 2011, he was diagnosed with malignancy / cancer and was frequently travel to USA to be with Son. In 2012 his wife also diagnosed with malignancy / cancer and since then they were under medication and treatment for the same.
- 11.2. In professional career, he has worked with RBI, IDBI, World Bank and Nigerian Bank for Industry, Lagos.
- 11.3. He did not attend the board meetings and committee meeting as mentioned in the Annual Report filed by CHL and he was not elected on any committee, hence, published information is not correct. During the period April 2008 to February 2014, he was in USA for 45 months (about 64%). G.S. Chandrashekar, chairman of CHL was aware of this position. The dates of Board meetings have been linked to his intermittent stay in India.
- 11.4. G.S.Chandrashekar, Chairman, his brother G.S. Viswanathan, son-in-law Rupesh, son Pranesh, Chief of Finance, Suthesh Nair, C.A., Legal and Ameeta Desai, Secretarial in charge, appear to have been engaged in publication of false details of working of CHL.
- 11.5. These persons have sold their properties and disappeared from the Country and will not be available to answer any notices. He as independent director become victim of their deeds.
- 11.6. Except as independent director, he did not have any financial stake in CHL and have become a victim of irregular actions of others.

- 11.7. He had not indulged in any action which attract the provisions of Section 12(A) of SEBI Act, 1992, Regulations 3 & 4 of PFUTP Regulations 2003 and Section 21 of SCRA, 1956.
- 11.8. Request to take into account to his illness physical condition, advanced age, consequent mental state, etc. and drop action against him.
12. **Noticee No. 6** [Harish Sahu (HS)] vide letter dated December 16, 2015 had requested to furnish the list of documents mentioned in the SCN in order to file his reply in the matter. SEBI vide letter dated November 17, 2020 had sent the list of documents to Noticee No. 7, but said letter was returned undelivered. It is further noted that Noticee No. 6 did not submit any reply to the SCN. However, during investigation, Noticee No. 6 had made his submission, which is annexed as part of SCN. The said submission in brief are *inter alia* as under:
- 12.1. He was independent non-executive director from October 01, 2008 till July 23, 2012.
- 12.2. He did not receive any communication regarding board meeting, committee meeting (Audit Committee or Remuneration committee), AGM, EGM, agenda of meetings, balance sheet of any year. He did not attend any board meeting or committee meeting as mentioned in the Annual Report. He did not sign attendance register. He had not signed any audit committee meeting.
- 12.3. G S Chandrashekar had misused his name.
13. **Noticee No. 7** [Ghanshyam Joshi (GJ)] vide letter dated July 10, 2017 submitted his reply in the matter, which in brief are as under:
- 13.1. He is 75 year old and a senior citizen.
- 13.2. He was appointed as independent director of CHL from January 15, 2008 and he resigned from independent director of CHL on July 25, 2012. He had attended AGM in December 2010 and December 2011 at Chennai, he was invited by Chairman & Director G.S. Chandrashekar and had signed some papers. Record of Board meeting are lying with G.S. Chandrashekar and, Suthesh K Nair & Amita Desai. He do not have any record.
- 13.3. He never attended any board meetings. G S Chandrashekar never informed about the board meeting to him, hence he had no comment on FY 2008-09.
- 13.4. He repeatedly informed G.S Chandrashekar to relieve him from director of CHL since 3 years, but his request was postponed and ultimately he submitted his written resignation to the board of CHL in July 2012.
- 13.5. CHL was run by G.S. Chandrashekar as proprietary company and he never discussed anything on company matters.

HEARING:

14. In the interest of natural justice, vide common notices of hearing dated November 13, 2018 an opportunity of personal hearing was granted to Noticee No. 1 to 7 on November 29, 2018. The said hearing notice was sent to the Noticees through speed post with acknowledgment due. The same was delivered in respect of Noticee No. 3 to 7. The proof of delivery is available on record. Hearing notice in respect of Noticee No. 1 & 2 was returned undelivered.
15. On November 29, 2018, Mr. D.M. Shirodkar (Noticee No. 5) appeared for hearing and made oral submissions, which are as under:
- “
- 15.1. *I reiterate my submissions dated December 14, 2015 and January 12, 2016.*
- 15.2. *I was an independent director in Coral till 2012. No remuneration was paid to me for said post. Mr. G S Chandrashekar, Chairman of Coral had misused my name.*
- 15.3. *I am 84 years old. In December 2011, I was diagnosed with cancer/malignancy, thereafter for treatment I was in USA with my son. In the year 2012 I orally resigned as director of Coral and orally informed other directors of Coral about the same, however they did not accept my resignation. So in January 2013 after returning from USA, I tendered my resignation and send the resignation letter to Registrar of Companies. Due to the disease and old age, I am unable to remember the events held in 2008-09 and 2009-10.*
- 15.4. *I attended few board meetings of Coral which held in Mumbai and objected few agendas of board meeting, however I did not have any proof of such objections. I never attended any board meetings of Coral which held in Chennai.*
- 15.5. *I submit medical certificate in support of my illness.*
- 15.6. *I have no further submission to make in the matter.....”*
16. Vide email dated November 20, 2018, G S Viswanathan (Noticee No. 4) stated that he is unable to attend the hearing on November 29, 2018 and had submitted his detailed in the matter and there is nothing more to add.
17. It is noted that Noticee No. 3, 6, & 7 did not appear for hearing.
18. In the interest of natural justice, vide notices of hearing dated November 10, 2020 an opportunity of personal hearing was granted to Noticee No. 1, 2, 3 & 7 on December 01,

2020 through video conference via WEBEX link. Vide notice of hearing dated November 17, 2020 an opportunity of personal hearing was granted to Noticee No. 6 on December 01, 2020 through video conference via WEBEX link. The said hearing notice was sent to the Noticees through speed post acknowledgment due. The same was delivered in respect of Noticee No. 3 and 7. Hearing notice in respect of Noticee No. 1, 2, and 6 was returned undelivered. Further, the hearing notice for hearing scheduled on December 01, 2020 in respect of Noticee No. 1, 2, 3, 6 & 7 was made through newspaper publication. Vide notification dated November 26, 2020 published in newspaper *Times of India*, Mumbai edition and notification dated November 26, 2020 published in newspaper *Maharashtra Times*, Noticee No. 1, 2, 3 & 7 were notified by SEBI that they have been given an opportunity of being heard on December 01, 2020 through audio – video visual via Webex. Vide notification dated November 26, 2020 published in newspaper *Times of India*, New Delhi edition; notification dated November 26, 2020 published in newspaper *Danik Jagran*, New Delhi edition, Noticee No. 6 was notified by SEBI that he has been given an opportunity of being heard on December 01, 2020 through audio – video visual via Webex.

19. Further, from the document available on records, it is noted one of the address of Noticee No. 2 is of United Kingdom (U.K.). SEBI vide email dated April 27, 2021 to Noticee No. 2 (email id available with SEBI) had advised Noticee No. 2 to confirm his alternate addresses of India. However, the Noticee did not respond. Further, SEBI also tried to contact Noticee No. 2 through his U.K. telephone number, however, it is noted that Noticee No. 2 did not attend the call. I note that the reply of this Noticee is already on record.

20. It is noted that Noticee No. 1, 2, 3, 6 & 7 did not appear for hearing.

FINDINGS & CONSIDERATIONS

21. I have perused the SCN, replies, written submissions and other materials available on record. On perusal of the same, the following issues arise for consideration. Each issue is dealt with separately under different headings.

- 21.1. **Issue No. 1:** Whether CHL had published false, inflated sales and misleading financial results during the FY 2008-09 and 2009-10 and thereby violated the provision of Section 12 A (a), (b) and (c) of SEBI Act, 1992, Regulation 3 (b), (c) and (d) and 4(1) and 4 (2) (e), (f), (k) and (r) of PFUTP Regulations?
- 21.2. **Issue No.2:** Whether CHL had failed to disclose related party transaction in its Annual Report FY 2009-10 and thereby violated the provision of Clause 32 of the Listing agreement read with Section 21 of the SCRA, 1956?
- 21.3. **Issue No. 3:** Whether CHL had not conducted any Board Meetings during the FY 2008-09 and 2009-10 and thereby violated the provision of Clause 49(C)(i) of the listing agreement read with Section 21 of the SCRA 1956?
- 21.4. **Issue No. 4:** If all or any, issue No. 1, 2, and 3 is answered in affirmative, then whether the Noticee/s are responsible for these violations?
- 21.5. **Issue No. 5:** For those Noticees for whom issue No. 4 is determined in the affirmative, whether any directions should be issued against such Noticees?
22. Before moving forward, it will be appropriate to refer to the relevant provisions of SEBI Act, PFUTP Regulations, Delisting Regulations, SCR Act, LODR Regulation, SCR Rules and Listing Agreement, which read as under:
- 22.1. **SEBI Act, 1992**
- “**Section 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 recognized stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;”

22.2. **PFUTP Regulations**

Regulation 3. Prohibition of certain dealings in securities

“No person shall directly or indirectly

(a)

(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.

Regulation 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:—

(e) any act or omission amounting to manipulation of the price of a security

(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;

(k) an advertisement that is misleading or that contains information in a distorted manner and which may influence the decision of the investors;

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

22.3. **SCR Act, 1956:**

Conditions for listing.

Section 21. *Where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange.*

22.4. **Listing Agreement:**

Clause 32: “.....The Company will make disclosures in compliance with the Accounting Standard on “Related Party Disclosures” in its Annual Report.....”

Clause 49 (C) (i): The board shall meet at least four times a year, with a maximum time gap of four months between any two meetings.

ISSUE No.1: *Whether CHL had published false, inflated sales and misleading financial results during the FY 2008-09 and 2009-10 and thereby violated the provision of Section 12 A (a), (b) and (c) of SEBI Act, 1992, Regulation 3 (b), (c) and (d) and 4(1) and 4 (2) (e), (f), (k) and (r) of PFUTP Regulations?*

23. It is alleged in the SCN that CHL had shown inflated figures of sales of Rs. 38.22 Cr (approx.) to FAO UN and Rs. 32.99 Cr (approx.) to NDS USA LLC which contributed a total of Rs. 71.21 Cr (approx.), which is 51.90% of the total sales for the FY 2008-09 and FY 2009 - 10. Correspondingly the figures of profit carried over in the Balance Sheet were also inflated.

24. Upon perusal of documents available on record, I find the following:

24.1. As per the Annual Report of CHL for FY 2009-10, the following were the amount of sales and profits of CHL (standalone) for 2008-09 (12 months) and 2009-10 (15 months):

Table No. 2

Particulars	2008-2009 (12 months)	2009-10 (15 months)
Sales	Rs. 61,08,57,165	Rs. 88,36,78,263
Net Profit after tax	Rs. 14,65,67,035	Rs. 20,11,46,296

24.2. As per CHL letter dated July 15, 2010, the Customer wise sales for FY 2008-09 and 2009-10 as under:

Table No. 3

Sr No.	Name of the Party	2008-09	% of the sales to the total sales	(In Rs)	
				2009-10 (12 months)*	% of the sales to the total sales
1	Raydox Technologies FZ LLC	22,95,13,924	37.57	21,99,43,816	28.93
2	Avington Solutions Ltd.	0	-	1,72,59,682	2.27
3	Rochelle Associates Ltd.	0	-	1,61,54,281	2.12
4	Digital Connections Co-ordinator Auckland	0	-	43,91,083	0.58
5	N D S USA LLC	14,25,52,112	23.34	18,73,38,148	24.64
6	Food & Agriculture Organisation of UN (FAO UN)	10,27,66,020	16.82	29,42,58,799	38.71
7	Times 4 Ltd.	8,83,07,600	14.46	0	-
8	Multitrade Corporation	1,97,49,600	3.23	0	-
9	Royal National Institute of Blind	1,25,94,459	2.06	67,28,459	0.89
10	I- Resources	1,44,47,100	2.36	1,11,61,152	1.47
11	Canadian National Institute for Blind	7,12,314	0.12	622,352	0.08
12	Hotcourses Ltd	2,50,237	0.04	385,659	0.05
13	Dolphin Computers Access Ltd.	0	-	19,69,004	0.26
Total		61,08,93,366	100.00	76,02,12,435	100.00

* For 2009-10, the amounts of sales reported in para 24.1 are for 15 months and Customer-wise breakup is for 12 months

24.3. In order to verify the veracity of sales made by CHL to above customers, the details of amounts received from them by CHL were sought from CHL. CHL vide its letter dated September 17, 2010 stated that in view of preparation of Annual report for the year ended March 2010, CHL requested extension for submission of information. Thereafter, SEBI vide letter dated October 13, 2010, informed CHL to provide the said information by October 20, 2010. Letters/e-mails have also been sent to the Chairman and Whole Time Directors of CHL to provide said information. However, it is noted that neither the company nor directors provided the said information.

24.4. As information was not received from the CHL and its directors, confirmation from clients and statement of certain entities were relied upon to verify sales reported by CHL of the clients who have contributed to more than 20% to sales during FY 2008-09 and 2009-10.

24.5. With regard to the customer Raydox, it is noted that Raydox was alleged as related party and sales made to Raydox was not disclosed under related party transaction. The finding in this regard has been mentioned in detail below in Issue no. 2.

- 24.6. With regard to the customer Food and Agriculture Organisation, UN (FAO), it is noted that FAO is shown to have contributed 16.82% (Rs. 10,27,66,020) and 38.71% (Rs. 29,42,58,799) of the total sales for FY 2008-09 and FY 2009-10 respectively. Total sale shown to have been contributed by FAO for FY 2008-09 and FY 2009-10 was approx. Rs. 39.70 crore. However, vide email dated October 23, 2013, FAO stated that total amount paid to CHL from July 2001 till December 2009 under the contract was US\$ 2,98,301.50. (Taking the conversion ratio @ Rs. 50/dollar at relevant time), the total amount paid to CHL comes up to Rs.1,49,15,075/-.
- 24.7. With regard the customer NDS USA LLC (NDS), it is noted that NDS is shown to have contributed 23.34% (Rs. 14,25,52,112) and 24.64% (Rs. 18,73,38,148) of the total sales for FY 2008-09 and FY 2009-10 respectively. Total sale shown to have been contributed by NDS for FY 2008-09 and FY 2009-10 was approx. Rs. 32.99 crore. However, vide email dated October 07, 2013, NDS stated that it was a client of CHL prior to and until May 2007 and last payments were made to CHL in the month of June 2007. Thus, it is noted that no payment were made by NDS to CHL during FY 2008-09 and FY 2009-10.
25. From the submission of the Noticees, I find that they have not denied of having business with FAO and NDS, rather stated that FAO & NDS were clients / customers of CHL since year 2001 & 2004 respectively. I also note that that none of the Noticees have submitted any proof regarding the receipt of payment of (a) approx Rs. 38.22 crore for sales made to FAO by CHL for FY 2008-09 and FY 2009-10 and (b) approx. Rs. 32.99 crore for sales made to NDS by CHL for FY 2008-09 and FY 2009-10. From the submission of Noticees, it is also noted that they have neither denied nor submitted any documentary evidence to negate the email confirmation of clients FAO and NDS. Thus, in the absence of any proof of receipt of payment from FAO and NDS, coupled with the evidence of email confirmation regarding payment made by FAO to CHL during July 2001 till December 2009 was Rs.1.49 Cr and no payments were made by NDS to CHL post June 2007, I find that the amount of sales made to FAO and NDS by CHL in the FY 2008-09 and FY 2009-10 were inflated to the extent of Rs. 71.21 Cr (approx.).

26. When a company makes sales to customers, the company has to reflect correct figures in its books of account. In the absence of the correct figures of sales, the shareholders of the company and investors placing reliance on the financial statement of the company, will not come to know the exact earnings / income / revenue and profits made by the company and the same would tantamount to manipulation of financial statement of the company. The adoption of such a practice will distort the true and fair picture of the financial health of the company. In light of the above, I note that if correct sales figures were shown, the sales and thereby earnings / income / revenue and profit of CHL would have decreased in the FY 2008-09 and FY 2009-10. Thus, I note that the books of account of CHL were inflated by 51.9% with respect to total sales made to FAO and NDS for the FY 2008-09 and FY 2009 – 10 and correspondingly the figures of profit carried over in the Balance Sheet were also inflated. The details regarding inflated sales are shown in the following table:

Table No. 4

	Name of the entity	Sales shown in Annual Report 2009-10. (Rs. in Crore)	Actual Sales (on the basis of replies from Entities) (Rs. in Crore)	Difference between Actual Sales and sales shown (Rs. in crores)
a)	FAO UN	2008-09 ----- 10.28 2009-10 ----- 29.43 Total ----- 39.71	1.49	38.22
b)	NDS USA LLC	2008-09 ----- 14.25 2009-10 ----- 18.73 Total ----- 32.98	0	32.98
c)	Total	----- 72.69		71.21
d)	Total Sales reported (Rs. in crore)		2008-09 ----- 61.09 2009-10 ----- 76.02 Total ----- 137.11	
e)	% of Inflation of Sales to the Total Sales reported			51.9%

27. Hence, in view of the above, the books of account of the company did not reflect the correct figures for the sales and profits made by the company. Thus, it is held that CHL had published false, inflated sales and misleading financial results during the FY 2008-09 and 2009-10 and thereby CHL has misrepresented its financial statement to its shareholders and to the public in general.

28. The provisions of PFUTP Regulations are mentioned at paragraph 22.2 above. The object and purpose of the provisions of PFUTP Regulations are to curb market manipulation.
29. Hon'ble Supreme Court of India in the matter of *N Narayanan Vs. Adjudicating Officer, Sebi* decided on April 26, 2013 while dealing with the concept of market abuse in securities market has held that:

“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 rise 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.”

30. Further, fraud has been defined under Section 2 (1) (c) of PFUTP Regulations which reads as under:-

“fraud” includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include--

- (1) a knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment;*

- (2) a suggestion as to a fact which is not true by one who does not believe it to be true;
- (3) an active concealment of a fact by a person having knowledge or belief of the fact;
- (4) a promise made without any intention of performing it;
- (5) a representation made in a reckless and careless manner whether it be true or false;
- (6) any such act or omission as any other law specifically declares to be fraudulent;
- (7) deceptive behavior by a person depriving another of informed consent or full participation;
- (8) a false statement made without reasonable ground for believing it to be true;
- (9) the act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price.

And “fraudulent” shall be construed accordingly;

31. The Hon’ble SAT in the matter of *V. Natarajan Vs. SEBI, Appeal No. 104 of 2011* decided on June 29, 2011, wherein it held -

“... We are satisfied that the provisions of Regulations 3 and 4 of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, were violated. These regulations, among others ... prohibit persons from engaging 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 that are listed on stock exchanges. These regulations also prohibit persons from indulging in a fraudulent or unfair trade practice in securities which includes publishing any information which is not true or which he does not believe to be true. Any advertisement that is misleading or contains information in a distorted manner which may influence the decision of the investors is also an unfair trade practice in securities which is prohibited. The regulations also make it clear that planting false or misleading news which may induce the public for selling or purchasing securities would also come within the ambit of unfair trade practice in securities...”

32. It is well settled that financial results form the basis for the investing public to take informed decisions. Any false information or false accounts depicting a distorted picture of financial health of the company is indeed a very serious wrong and has a direct impact on the securities market and the investors. A basic premise on which the foundation of securities market is laid, is that the persons connected with securities

market conform to standards of transparency, good governance and ethical behaviour prescribed in securities laws and do not resort to fraudulent activities.

33. In the present case, it has been clearly found that CHL has employed deceptive devices by inflating sales during FY 2008-09 and 2009-10 and thereby hiding the actual figures sales and had adopted dubious practices in drawing up accounts for manipulating the financial results of CHL to present a distorted picture to its shareholders and to the public at large. Thus, upon considering all facts and circumstances in totality, I find that such acts and omissions were fraudulent on the part of the company. When the picture is looked at in totality, what is unfolding is a fraud perpetuated on the market / investors. Such acts of serious irregularities threaten the market integrity and orderly development of the market and calls for regulatory intervention to protect the interest of investors.
34. Further, I also note that Noticees have neither specifically denied nor defended that sales were overstated / inflated and correspondingly the figures of profit carried over in the Balance Sheet were also inflated. They have also not submitted any documentary evidence that sales were not overstated / inflated. Thus, in view of the foregoing, I am of the view that the allegation of violation of provisions of Sections 12A (a), (b) and (c) of SEBI Act and Regulations 3 (b), (c), (d) and Regulations 4(1) and 4(2), (e), (f), (k), and (r) of PFUTP Regulations against CHL stands established.

ISSUE No. 2: *Whether CHL had failed to disclose related party transaction in its Annual Report FY 2009-10 and thereby violated the provision of Clause 32 of the Listing agreement read with Section 21 of the SCRA, 1956?*

35. As per Clause 32 of Listing Agreement the Company is required to make Related Party Disclosures in its Annual Report.
36. It is alleged in the SCN that Raydox, Avington and Rochelle were related parties of CHL and it had failed to disclose the sales made to them in the Annual Report (2009-10) under related party transactions.
37. Upon perusal of documents available on record, I find the following:

- 37.1. From Table No. 3 above, it is observed that three entities viz., Raydox, Avington and Rochelle together have contributed to 37.57% and 33.32% of the total sales during FY 2008-09 and 2009-10 respectively.
- 37.2. It is noted that Raydox was the company based in Dubai.
- 37.3. With regard to the Avington and Rochelle, Financial Conduct Authority (FCA UK) vide e-mail dated September 23, 2013 informed SEBI that they were not finding any existence of Avington Solutions Ltd and Rochelle Associates Ltd. As no information / documents regarding the existence and control of Avington and Rochelle has been available with FCA UK, therefore, in the present proceeding, for the existence and control of Avington and Rochelle, reliance has been placed only on the statement of Mr. Anthony Lopes, Manager-Administration with TTL and Mr. Suthesh Nair, Vice President Finance of CHL and admission of Noticee No. 2 on the existence of these companies.
- 37.4. Further, with regard to Raydox, it is also noted that in the present proceeding, apart from the written statement of Mr. Anthony Lopes and Mr. Suthesh Nair, no other information / documents has been relied upon in the SCN regarding existence and control of Raydox.
- 37.5. TTL is promoter entity of CHL. Mr. Anthony Lopes, Manager-Administration with TTL was director in Raydox, Avington and Rochelle.
- 37.6. Mr. Anthony Lopes vide written statement dated June 5, 2013 stated as under:
- 37.6.1. He had set up office of Avington in UK and all the decisions of the company have been taken by G.S. Chandrasekhar (Noticee No. 2) and Dilip C Parekh (Noticee No. 3).
- 37.6.2. He was made Director of Raydox in Dubai. Raydox was set up by G.S. Chandrasekhar and G.S. Viswanathan (Noticee No. 4). From 2008 to June 30, 2012 the day to day business was handled by Dilip C Parekh.
- 37.6.3. Information of Rochelle will be given by G.S. Chandrasekhar as he is whole and sole of this company.
- 37.7. Mr. Suthesh Nair, Vice President Finance of CHL vide written statement dated April 23, 2013 had confirmed the above facts.

38. With regard to the transaction of CHL with Raydox, following submission were made by Noticee No. 2, 3, and 4:

38.1. Noticee No. 2 (GSC) submitted that GSC was director of Raydox between 2003 & 2007. GSC resigned from the directorship in 2007. Thereafter, Anthony became director of Raydox. When Anthony was director of Raydox, he was not an employee of Tutis or CHL. GSC has no ownership interest in Raydox. Noticee No. 2 was not giving any instructions to Mr. Anthony Lopes in regard to operations of Raydox anytime during 2008 to 2012. GSC would have given some advice on Raydox to Mr. Anthony Lopes.

38.2. Noticee No. 3 (DCP) submitted that the statements of Mr. Suthesh Nair and Mr. Lopes that decision were taken by Mr. G S Chandrasekhar as the Chairman and DCP as a Director was true.

38.3. Noticee No. 4 (GSV) submitted that in 2003, Raydox was formed by GSV & GSC in UAE. GSV became the director and GSC represented as investors from UK. GSV left Raydox by end of 2005 and GSC resigned as director of Raydox around that time. Thereafter, GSV had no connection with / control over Raydox. Anthony Lopes was the director of Raydox and was controlling Raydox. CHL has no investment in Raydox and is not directly related as CHL.

39. From the submission of Noticee No. 4, it is noted that Noticee No. 2 and 4 formed Raydox in the year 2003 in UAE. Further, Noticee No. 2 submitted that he had resigned as director of Raydox in the year 2007 and Noticee No. 4 submitted that he had had resigned as director of Raydox in the year 2005 however it is noted the no documentary evidence in regard of their resignation was submitted by them. Furthermore, Noticee No. 4 submitted that Noticee No. 2 resigned around the time when Noticee No. 4 had resigned i.e. in the year 2005, whereas Noticee No. 2 submitted that he resigned from Raydox in year 2007, which in my opinion appears to be inconsistent. Moreover, I also note from the submission of Noticee No. 2 that he gave advice to Mr. Anthony regarding Raydox. Thus, in the absence any documentary proof regarding their resignation as director of Raydox, I do not find any merit in submission on their said resignation.

40. Noticee No. 2 also submitted that when Anthony was director of Raydox, he was not an employee of Tutis or CHL; however no documentary evidence in this regard was

submitted. On the other hand, from Mr. Anthony Lopes statement dated June 05, 2013, I note that he was working as manager administration with TTL (promoter entity of CHL) from February 2002 till December 31, 2013 and was reporting to and taking instruction from Noticee No. 2 and 3. Thus, I do not find any merit in the said submission of Noticee No. 2.

41. I also note from the statement of Mr. Anthony Lopes that (a) he was working as manager administration with TTL (promoter entity of CHL) from February 2002 till December 31, 2013; (b) he was reporting to and taking instruction from Noticee No. 2 and 3; (c) he was director of Raydox during the FY 2008-09 and 2009-10 and (d) Raydox was set up by GSC and GSV. From 2008 to June 30, 2012 the day to day business was handled by DCP. From the MCA database and Annual Report of CHL and TTL for FY 2009-10, I find that Noticee No. 2 was Chairman & Managing Director of TTL and Chairman & director of CHL, and Noticee No. 3 was whole time director of CHL and director of TTL. Further, I also note that Noticee No. 2 & 4 in their submission have admitted that they have formed Raydox and Noticee No. 2 was investor / shareholder in Raydox. I also note that Noticee No. 2 & 4 had not submitted any documentary evidence that Noticee No. 2 had ceased to be shareholder of Raydox. Thus, I am of the view that in the absence of lack of submission of documentary evidence by Noticee No. 2 that he has ceased to be shareholder of Raydox and Noticee No. 2 and 3 being directors of CHL and TTL, through Mr. Anthony Lopes (Manager, Administration) were exercising control over Raydox during FY 2008-09 and 2009-10. Thus, in view of the foregoing, I conclude that Raydox was a related party to CHL during FY 2008-09 and 2009-10.

42. With regard to Avington, it is alleged in the SCN that Mr. Anthony Lopes stated that he had set up office of Avington in UK and all the decisions of Avington have been taken by GSC & DCP. In this regard, GSC submitted that Avington is not an UK incorporated company. GSC has no connection with / control over Avington either directly or indirectly. Avington was neither promoted nor set by GSC or GSV or DCP. None of the directors of CHL was involved in Avington affairs directly or indirectly. It was further stated that GSC would like to call upon Anthony to prove his statement with sufficient documentary evidence about his involvement in Avington. Thus, I note that GSC had in

essence, sought cross examination of Mr. Anthony Lopes only regarding GSC involvement in Avington. In this regard, from the documents available on record, I find that GSC was not given an opportunity to cross examine Mr. Anthony Lopes statement regarding the involvement of GSC in Avington. Therefore, in consonance with the principles natural justice and in facts and circumstances of the present case, the statement of Mr. Anthony Lopes to the extent of GSC's involvement in Avington cannot be relied upon in the present proceedings.

43. With regard to Rochelle, it is alleged in the SCN that Mr. Anthony Lopes stated that GSC is whole & sole of Rochelle. In this regard, GSC submitted that Rochelle is not an UK incorporated company. GSC has no connection with / control over Rochelle either directly or indirectly. Thus, I note that argument of GSC contradicts the statement of Mr. Anthony. Hence, in view of the contradictory statements, I am of the view that GSC would have been given an opportunity to cross examine Mr. Anthony Lopes, however GSC neither sought an opportunity of cross examine Mr. Anthony Lopes in respect of his statement regarding Rochelle nor any opportunity to cross examine was granted to GSC. Therefore, consonance with the principles natural justice and in facts and circumstances of the present case, the statement of Mr. Anthony Lopes with regard to the allegation of GSC involvement in Rochelle also cannot be relied upon in the present proceedings.
44. With regard to Avington and Rochelle being related parties to CHL, from the documents available on record, I note that in the present proceedings, apart from the statement of Mr. Anthony Lopes, no other documentary evidence has been brought on record before me regarding the existence and control of Avington and Rochelle and their connection with CHL or any of its directors. Hence, in view of fair proceedings and in the absence of any documentary evidence regarding control of Avington and Rochelle by CHL or any of its director, I am of the view that it is difficult to reasonably conclude that Avington and Rochelle were related parties to CHL during FY 2008-09 and FY 2009-10.
45. As already held above in paragraph 41 that Raydox was a related party to CHL during FY 2008-09 and 2009-10. From the Annual Report of CHL for FY 2009-10, I find that

the sales made to Raydiox amounting to approx. Rs. 22.95 crore (37.57%) in FY 2008-09 and approx. Rs. 21.99 crore (28.93%) in FY 2009-10 was not disclosed under the head related party transaction. Thus, the allegation that CHL had failed to disclose the sales made to Raydiox under the head related party transaction in Annual Report for FY 2009-10 stands established. Hence, the allegation of violation of provision of Clause 32 of the Listing agreement read with Section 21 of the SCRA, 1956 against CHL stand established.

ISSUE No. 3: Whether CHL had not conducted any Board Meetings during the FY 2008-09 and 2009-10 and thereby violated the provision of Clause 49(C)(i) of the listing agreement read with Section 21 of the SCRA 1956?

46. As per Clause 49 (C) (i) of Listing Agreement, the board shall meet at least four times a year, with a maximum time gap of four months between any two meetings. It is alleged in the SCN that there were no Board Meetings held by CHL during the FY 2008-09 and 2009-10.

47. From the Annual Report of CHL for FY 2009-10, I note that it was claimed that there were 15 Board meetings held during the FY 2009-10 till June 30, 2010. The details regarding the attendance in board meetings by Noticee No. 2 to 7 are as under:

Table No. 5

Noticee No.	Name of the Entities	Designation	No. of Board Meeting attended
2	Mr. G.S. Chandrashekar	Chairman and Director	9
3	Mr. Dilip C Parekh	Whole Time Director	14
4	Mr. G.S. Vishwanatham	Whole Time Director	15
5	Mr. D M Shirodkar	Independent Director	5
6	Mr. Harish Sahu	Independent Director	12
7	Mr. Ghanshyam Joshi	Independent Director	15

48. Further, upon perusal of documents available on record, I note that during the course of investigation, SEBI vide summon dated May 23, 2013 had advised CHL to furnish signed copies of agenda & minutes of board meeting. However, it is noted that the said summon was returned undelivered. It is also noted that in 2013, SEBI official visited

corporate office of CHL in Mumbai and registered office in Chennai and found that both offices were not in existence in the locations. Hence, as the information was not forthcoming from CHL, I note that the allegation by SEBI in the SCN is based on the submission made by Mr. D M Shirodkar, Mr Harish Sahu & Mr. Ghanshyam Joshi (Noticee No. 5, 6, & 7) during the course of investigation that that they have never attended any board meetings and statement of Dilip C Parekh dated April 12, 2013 that there were no formal board meetings held by CHL since April 2008.

49. In this regard, during the present proceedings, Noticee No. 2, 4, 5 & 7 made the following submissions:

49.1. GSC and GSV submitted that:

49.1.1. GSC received Notice & Agenda of Board Meetings of CHL posted to directors and he had attended meetings. Mr. Sahu, Mr. Joshi & Mr. Shirodkar have attended many Board Meetings in Mumbai as well as in Chennai. GSC has taken Mr. Shirodkar for lunch and DCP have taken out Mr. Joshi & Mr. Sahu for lunch after the Board Meetings. There was attendance register for Board Meetings where every director has signed it. Minutes of the Board Meetings were prepared.

49.1.2. DCP would have destroyed all Company Law records of the company including Minute Books & Attendance Register to protect his director friends from SEBI proceedings.

49.1.3. GSC had submitted copy of some board meeting Minutes either signed or unsigned to SEBI in April 2013.

49.1.4. SEBI cannot conclude merely based on the statements of Mr. Sahu, Mr. Joshi & Mr. Shirodkar and supported by DCP that no Board Meetings were held. If SEBI can conclude on mere statements of Mr. Sahu, Mr. Joshi & Mr. Shirodkar, then they request that their statement should be taken in record that Board Meetings were held and they confirm that Mr. Sahu, Mr. Joshi & Mr. Shirodkar were seen attending Board meetings.

49.2. D.M. Shirodkar submitted that he did not attend the board meetings as mentioned in the Annual Report and he was not elected on any committee. However, during the course of hearing Mr. Shirodkar submitted that he had attended some board meeting in Mumbai.

49.3. Ghanshyam Joshi had submitted that he attended AGM in December 2010 and December 2011 at Chennai and had signed some papers. Records of Board meeting are lying with GSC. He never attended any board meetings. GSC never informed about the board meeting to him.

49.4. During investigation, Noticee No. 6 submitted that he did not receive any communication regarding board meeting, committee meeting (Audit Committee or Remuneration committee), AGM, EGM, agenda of meetings, balance sheet of any year. He did not attend any board meeting or committee meeting as mentioned in the Annual Report.

50. In view of the submission made by the Noticees, I am of the view that, apart from the submission of Noticee No. 3, 5, 6 & 7 made during the course of investigation proceedings as well as during this present proceedings, the submission of Noticee No. 2 & 4 also have to be considered. Further, from the submission of Noticee No. 3, 5, 6 & 7 made during the course of investigation as well as present proceeding, I note that Noticee No. 3, 5, 6 & 7 have not submitted any documentary evidence regarding no board meetings were held by CHL since April 2008. Whereas, I note that during the course of investigation, Noticee No. 2 has submitted copy of signed and unsigned minutes of some board meeting held since 2008 as well as copy of board resolutions. Further, from BSE and NSE website, I also note that during FY 2008-09 and FY 2009-10, CHL made various announcement for conducting board meetings. Further, with regard to unsigned board meetings minutes, I note that CHL made announcement of outcome of board meetings on stock exchanges website which corresponds with some of the unsigned board meeting minutes. Hence, there is evidence to the fact of conduct of board meetings as corroborated by the disclosures made to the stock exchange.

51. Upon perusal of copy of minutes of board meeting submitted by Noticee No. 2 and from stock exchanges website, I find that since April 01, 2008 till June 30, 2010, CHL had conducted 32 board meetings, out of which 22 signed board meeting minutes, 9 unsigned board meetings are on record and 1 board meeting minutes are not available. Further, out of 32 board meeting minutes, 17 board meeting were held during FY 2008-09 and 15 board meeting was held during FY 2009-10 till June 30, 2010. I also note that out of 22 signed board meeting minutes available on record, 12 board meeting minutes

were signed by DCP and 10 board meeting minutes were signed by GSC. Further, as per the signed and unsigned minutes of board meeting available on record, the details of attendance of board meeting by Noticee No. 2 to 7 during FY 2009-10 till June 30, 2010 is approximately same as mentioned in table no. 5 above (1 board meeting minutes dated June 11, 2010 is not submitted by Noticee No.2). Furthermore, the dates of board meeting of CHL mentioned in the Annual report 2010 matches with dates of board meeting minutes (signed and unsigned) submitted by Noticee No. 2 except the minutes of board meeting dated June 11, 2010 which through not submitted but outcome of said board meeting is disclosed on BSE website.

52. Thus, in view of the above, coupled with various corporate announcement made by CHL regarding conducting board meeting during FY 2008-09 and 2009-10 and non-submission of documentary evidence by Noticee No. 3, 5, 6 & 7 that no board meeting held, I am of the view that the submission of Noticee No. 3, 5, 6 & 7 that they have never attended any board meeting of CHL and no board meetings were held by CHL since April 2008, is not reliable and does not hold any merit.
53. Further, from the copy of board meeting minutes available on record and from the disclosure on the stock exchange website, I note that during FY 2008-09 and FY 2009-10 till June 30, 2010, CHL had conducted 17 & 15 board meeting respectively and gap between two consecutive board meeting does not exceed 4 months. Thus, in view of the foregoing, I am of the view that allegation that no Board Meetings were held by CHL during the FY 2008-09 and 2009-10 does not stand established. Hence, the allegation of violation of provision of Clause 49(C)(i) of the Listing agreement read with Section 21 of the SCRA, 1956 against CHL does not stand established.

ISSUE No. 4: *If all or any, issue No. 1, 2, and 3 is answered in affirmative, then whether the Noticee/s are responsible for these violations?*

54. As per the MCA records and Annual Report of CHL for FY 2009-10, the designation and directorship tenure of Noticee No. 2 to 7 are as under:

Table No. 6

Noticee No.	Name of the Entities	Designation	Date of appointment	Date of Cessation
2	Mr. G.S. Chandrashekar	Chairman and Director	February 01, 2001	Continuing
3	Mr. Dilip C Parekh	Whole Time Director	January 07, 2000	Continuing
4	Mr. G.S. Vishwanatham	Whole Time Director	January 07, 2000	August 30, 2010
5	Mr. D M Shirodkar	Independent Director	January 10, 2008	Continuing
6	Mr. Harish Sahu	Independent Director	October 01, 2008	Continuing
7	Mr. Ghanshyam Joshi	Independent Director	January 15, 2008	Continuing

55. From the document available on records, I find that during the course of investigation, Noticee No. 5 vide email dated October 25, 2013 submitted that he was independent director; he had attended only 1 board meeting held in Mumbai but not in Chennai; he was never a member of any committee of the Board and he did not deny his possibility of attending board meeting of CHL. However, during the course of this proceeding, Noticee No. 5 vide letter dated January 12, 2016 submitted that he did not attend the meetings as mentioned in the Annual Report of CHL for FY 2010, whereas vide letter dated December 14, 2015 and during hearing dated November 29, 2018 he submitted that he had attended few board meetings held in Mumbai but not in Chennai. In this regard, I find that the submissions of Noticee No. 5 are contradictory.

56. Noticee No. 6 & 7 submitted that they were independent directors; they did not receive any notice and agenda papers of any board meeting or any sub-committee meeting; they never attended any board meeting, any audit committee meeting, remuneration committee and share transfer & shareholders / investors grievance committee as mentioned in Annual Report of CHL for FY 2009-10; they did not sign any attendance register. GSC had misused their names.

57. Noticee No. 5 submitted that, he was not in India during the period February 19, 2008 to August 16, 2008; July 23, 2009 to February 16, 2010 and July 20, 2010 to March 22, 2011. From the Annual Report of CHL for FY 2009-10 and board meeting minutes held in FY 2008-09, I find that during the period when Noticee No. 5 was not in India, CHL had conducted 7 board meetings in FY 2008-09 and 8 board meeting in FY 2009-10. Upon perusal of said board meeting minutes, I find that Noticee No. 5 was not present in

any of the said board meeting and leave of absence was granted to them. Further, as per the Annual Report, the Audit Committee meeting was held on June 30, 2009, July 30, 2009, October 31, 2009, January 30, 2010 and May 15, 2010 and Noticee No. 5 had attended 2 Audit committee meetings. I find that 2 Audit committee meeting i.e. June 30, 2009 and May 15, 2010 falls during the period when Noticee No. 5 was in India. Thus, it can be reasonably concluded that 2 Audit committee meeting which Noticee No. 5 has attended falls during the period when he was in India.

58. I note that Noticee No. 5, 6 & 7 did not deny that they were directors of CHL during FY 2008-09 and FY 2009-10. From the submission of Noticee No. 5, 6, & 7, I find that they did not submit any documentary evidence regarding that no board meeting or sub-committee meeting of CHL held as mentioned in the Annual Report of CHL for FY 2009-10. Further, if their names and their presence / attendance in board meeting and sub-committee meeting of CHL was wrongly mentioned as claimed by them, I note that that Noticee No. 5, 6, & 7 has failed to demonstrate their protest or complaint against CHL or its management before appropriate authorities / forum for wrongly using their names and their presence / attendance in board meeting and sub-committee meeting of CHL. I Thus, there has been no documentary or circumstantial evidence available before me to rely on the submissions made by the Noticee No. 5, 6, & 7 to disbelieve the disclosures made by CHL in its Annual Report 2009-10 regarding the conducting of board meeting by CHL and attendance of board meeting and sub-committee meetings including audit committee meeting by Noticee No. 5, 6, & 7. Hence, I do not find merit in the submission of Noticee No. 5, 6, & 7 that they did not attend board meeting or audit committee meeting.

59. Without prejudice to the conclusion arrived at the preceding paragraphs, even if argument of the Noticee no. 5, 6, & 7 is accepted that they neither received board meeting agenda nor attended the board meeting of CHL and CHL did not conduct board meeting. It is noted that Noticee no. 5, 6, & 7 were independent directors of CHL since 2008, thus being on the board of CHL should have prompted them to make an enquiry that why they have not received any board meeting agenda and why CHL had not conducted board meeting in FY 2008-09 and FY 2009-10. This should have alerted them as a strong red flag to make further enquiries with the Company. In view of the absence of the proof on

this score, the fact remains that there was omission to make enquiry. The omission on the part of the Noticee No. 5, 6 & 7, shows that they were grossly negligent and committed acts of omission where due diligence required them to make an enquiry about conducting board meeting.

60. Further, from the Annual Report for FY 2009-10 it is noted that the Noticee No. 5 , 6 & 7 were part of Audit Committee of CHL. The details with regard to audit committee is as under:

Table No. 7

Noticee No.	Name of the Entities	Designation in Audit Committee	No. of Audit Committee meeting attended
7	Mr. Ghanshyam Joshi	Chairman	5
6	Mr. Harish Sahu	Member	4
5	Mr. D M Shirodkar	Member	2

61. As per Annual Report of FY 2010, the audit committee meeting dates were June 30, 2009, July 30, 2009, October 31, 2009, January 30, 2010 and May 15, 2010 and some of the board meeting dates were June 30, 2009; July 30, 2009; October 31, 2009; January 30, 2010; and May 15, 2010. From the board meeting minutes, it is noted that in these board meetings, the board of CHL had approved yearly and quarterly financial results. Further, upon perusal of one of the minutes of board meeting held on June 30, 2009, I find that Noticee No. 5, 6 & 7 alongwith Noticee 2, 3, & 4 have attended the said board meeting, wherein Board of CHL noted that profit and loss account, balance sheet and audited financial results for the year ended March 31, 2009 was reviewed by the audit committee and thereafter the board of CHL had approved the same. Thus, I note that although Noticee no. 5, 6 & 7 were independent directors, but being part of the Audit Committee of CHL, they had access to the records pertaining to the finances of CHL. Thus, they had direct knowledge about the financial health of CHL. Being Chairman and Members of the audit committee their role envisaged more diligent handling of the accounts and verification of financial details which could have alerted them to the basic irregularities in the accounts.

62. In the present matter, with respect to the financial statement of CHL, from the Annual Report of CHL for FY 2010, following is noted:

Table No. 8

INR in Rupees

	April 01, 2008 to March 31, 2009 (12 months)	April 01, 2009 to June 30, 2010 (15 months)
Sales	61,08,57,165	88,36,78,263
Net profit before tax	16,57,53,278	23,48,21,013
Net cash from operating activities	-12,29,42,047	-1,63,85,16,286
Trade receivable	5,65,08,253	30,76,92,263
Sundry Debtors outstanding for a period exceeding six months	17,55,12,401	29,52,61,834

62.1. Firstly from the above table, it is noted that the sales had increased by approx Rs. 27 crores, whereas, the cash flow from operating activities of CHL is consistently less than the reported net income (net profit before tax) in two financial year. This is a red flag for the members of Audit Committee (Noticee No. 5, 6 & 7) to make an enquiry that why operating earnings are not turning into cash. This red flag would have prompted Noticee No. 5, 6 & 7 to enquire from auditors to get the confirmation from the clients.

62.2. Secondly, it is also noted that increase in sundry debtors, that too for a period exceeding six months by almost double within a year should have been a raised doubt in the minds of members of Audit Committee (Noticee No. 5, 6 & 7), when coupled with fact that the cash flow statement also reflects increase in trade receivable in last two financial years. This red flag for the members of Audit Committee (Noticee No. 5, 6 & 7) should have created doubt about inflated revenue / sales. This red flag would have prompted Noticee No. 5, 6 & 7 to enquire with auditors about reason for delay in outstanding payment for six months.

63. Therefore, I find that above circumstances which acted as red flags for the members of Audit Committee (Noticee No. 5, 6 & 7) to raise questions and had they made any enquiry, the Noticee No. 5, 6 & 7 would have come to know the true state of financial statements of CHL. In view of the absence of the proof on this score, the fact remains that there was omission to make enquiry. The omission on the part of the Noticee No. 5, 6 & 7, on aforesaid occasions, shows that they were grossly negligent and committed acts of omission where due diligence required them to make an enquiry.

64. Further, reliance is also placed in the Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT") order in the matter of *Mr. N. Narayanan Vs. The Adjudicating Officer* dated October 05, 2012, where in Hon'ble SAT held that: "...*The members of the audit committee are expected to exercise due oversight of the company's financial reporting process and to ensure that the financial statement is correct, sufficient and credible. It is also expected to conduct a meaningful review with special emphasis on major accounting entries and significant adjustments made in the accounts before putting up the statements for the approval of the Board. The board of directors of the company has entrusted the audit committee with an onerous duty to see that the financial statements are correct and complete in every respect...*".
65. Hence, in view of the aforesaid Hon'ble SAT judgment coupled with the omission to make an enquiry about the aforesaid red flags, I note that although Noticee no. 5, 6 & 7 were independent directors, but being members of Audit Committee they were responsible for the financial reporting of the company.
66. Further, I note that Noticee No. 2 being chairman and director of CHL and Noticee No. 3 & 4 being whole time director of CHL who are involved in day to day conduct of business / affairs / activities of CHL are also responsible of the acts and omissions of CHL.
67. In this regard, Noticee No. 2 (GSC) and Noticee No. 4 (GSV) submitted that although they were a Director on the board of CHL but day to day working of CHL including marketing, finance, administration and company law matters were handled / controlled by Noticee No. 3 (DCP) and they had full faith and trust on Noticee No. 3. Similarly, Noticee No. 3 (DCP) also submitted that though he was a Director on the board of CHL but he had no role to play in the affairs of CHL, GSC was taking functional decisions and financial decisions of CHL and he had blindly placed faith and trust GSC and his signature was taken only for the purpose of fulfilling legal requirements and compliances.
68. From the submission of these Noticees, I note that regarding functioning of CHL, GSC & GSV put liability / responsibility on DCP; and DCP put liability / responsibility on GSC.

In this regard, DCP had submitted some email communication regarding functioning of CHL by GSC; and GSC submitted copy of board meetings of CHL during FY 2008-09 and FY 2009-10 which reflect the involvement of DCP in functioning of CHL. Further, I note that GSC, DCP and GSV did not submit any documentary evidence which negate the disclosures made by CHL in its Annual Report 2009-10.

69. Further, upon perusal of minutes of various board meeting submitted by GSC, I note that 12 board meeting minutes were signed by DCP and 10 board meeting minutes were signed by GSC. Further, from the Annual report for FY 2009-10, I find that GSV and DCP both have signed various documents of CHL like Directors Report, certification in terms of clause 49(v) of Listing agreement, consolidated balance sheet and profit and loss account as at June 30, 2010, Accounting policies of CHL, consolidated cash flow statement etc. From the Annual report for FY 2009-10, I note that out of 15 Board Meetings held during that during the FY 2009-10 till June 30, 2010, GSC, DCP and GSV attended 9, 14 and 15 respectively. Thus, the Noticee No. 2, 3, & 4 were regularly attending the Board Meetings. I also note that GSC was director of CHL since 2001 and DCP & GSV were directors of CHL since 2000. Hence, all this collectively reflects that GSC, DCP and GSV together were running and controlling the functioning and business of CHL. Therefore, I do not find any merit in the submission that (a) GSC and GSV are not involved in day to day functioning of CHL and DCP is only controlling CHL; and (b) DCP not involved in day to day functioning of CHL and GSC is only controlling CHL.

70. With regard to the submission of some of the Noticees that CHL was run by GSC as proprietary concern, I note from the Annual Report for FY 2009-10 apart from Noticee No. 5, 6 & 7, being part of audit committee and board member of CHL, they were also part of remuneration committee and share transfer & shareholders / investors grievance committee of CHL. Further, it is also noted that Noticee No.2 was director of CHL since 2001 and Noticee No. 3 & 4 were directors of CHL since 2000. As per Annual Report, Noticee No. 2 was chairman & director of CHL and Noticee No. 3 & 4 were whole time directors and were board members. As per the board meeting minutes, most of the board meetings of CHL were chaired by Noticee No. 2 & 3 and few by Noticee No. 4. Thus, in view of the foregoing, the submission of the Noticees that that the company was driven as proprietary concern by GSC is not correct as the all Noticees were part of board member

and some of the Noticees apart from being a Board Member were also part of numerous committees of the company indicating that all Noticees had a role in running and controlling the affairs / workings of the company.

71. With regard to the duty and responsibility of directors of a company, reliance are placed on following judgments:

71.1. The Hon'ble Supreme Court while describing what is the duty of a director of a company, in *Official Liquidator v. P. A. Tendolkar* (1973) 1 SCC 602 held that “...a Director may be shown to be placed and to have been so closely and so long associated personally with the management of the company that he will be deemed to be not merely cognizant of but liable for fraud in the conduct of business of the company even though no specific act of dishonesty is provide against him personally. He cannot shut his eyes to what must be obvious to everyone who examines the affairs of the company even superficially....”

71.2. Hon'ble SAT in the matter of *Mr. N. Narayanan Vs. The Adjudicating Officer* dated October 05, 2012 held that: “... It is the responsibility of a director to identify deficiencies wherever possible by employing verification and scrutiny expected of a prudent man. Meetings of Board of Directors are not rituals where documents are signed at the behest of the chairman or managing director. A director cannot take a stand that he has approved the documents totally depending on the integrity and expertise of the managing director. We are not observing that the director of a company should be a know all, but the duty expected of a prudent person cannot be abdicated by him...”

71.3. Hon'ble Supreme Court of India in the matter of *N Narayanan Vs. Adjudicating Officer, SEBI* decided on April 26, 2013, held that; “32. Responsibility is cast on the Directors to prepare the annual records and reports and those accounts should reflect ‘a true and fair view’. The overriding obligation of the Directors is to approve the accounts only if they are satisfied that they give true and fair view of the profits or loss for the relevant period and the correct financial position of the company.....Directors of the companies, especially of the listed companies, have access to inside knowledge, such as, financial position of the company, dividend

rates, annual accounts etc. Directors are expected to exercise the powers for the purposes for which they are conferred. Sometimes they may misuse their powers for their personal gain and makes false representations to the public for unlawful gain...”

72. In view of aforesaid decision of the Hon’ble Supreme Court and Hon’ble SAT, it is held that Noticee No. 2 and 3 being Directors and signatories to the financial statements should have satisfied themselves, individually, to the veracity of the figures mentioned in financial statement and, they, now cannot be allowed to take a plea that the same was done in good faith and on account of trust reposed on each other. I note that with the rapidly changing scenario in the corporate world vis-a-vis corporate responsibility, the Director of the company cannot confine himself to lending his name to the company instead of responsibilities for the functions of the Board. He cannot shy away from the responsibility by simply placing his blind faith in the Chairman and other Director
73. The facts and circumstances of the present case clearly reveal that the Noticee No. 2 to 7 had failed in their duty to exercise due care and diligence and allowed the company to fabricate the figures and make false disclosures. A Company though a legal entity cannot act by itself, it can act only through its directors. Therefore, directors are expected to exercise their power on behalf of the company with utmost care, skill and diligence. Thus, I find that the directors of CHL, namely, Noticee No. 2 to 7, cannot escape from the obligation of CHL with regard to their fiduciary duties towards CHL and its shareholders.
74. I note that in the present matter, violation as held above in Issue No. 1 & 2 against CHL were regarding financial reporting and manipulation in financial statements of CHL i.e. (a) publication of false, inflated sales and misleading financial results during the FY 2008-09 and 2009-10 and (b) failure to disclose the sales made to related party under the head related party transaction in Annual Report for FY 2009-10. Therefore, in view of the aforesaid findings, it is held that that Noticee No. 2, 3 & 4 alongwith Noticee 5, 6 & 7 are liable / responsible for the violation by CHL as established above.

75. Hence, in view of the foregoing, I am of the view that the allegation of violation of provisions of Sections 12A (a), (b) and (c) of SEBI Act and Regulations 3 (b), (c), (d) and Regulations 4(1) and 4(2), (e), (f), (k), and (r) of PFUTP Regulations and provision of Clause 32 of the Listing agreement read with Section 21 of the SCRA, 1956 against CHL and Noticee No. 2 to 7 stand established.

ISSUE No. 5: For those Noticees for whom issue No. 4 is determined in the affirmative, whether any directions should be issued against such Noticees?

76. I note that financial statement and annual report of a listed Company is the most important document for the shareholders / investors of the Company. The shareholders / investors while taking informed decisions about their investment in the company, largely depend on financial statement and annual report of company along with other material information, disclosed by the Company to stock exchanges from time to time. Therefore, if the financial statement and annual report of a listed company contains any false and misleading reporting about the financial performance of the company, this results in fake and fabricated disclosures that mislead the shareholders and investors, and amounts to a commitment of a fraudulent act on the shareholders and investors by the company and its Directors within the meaning of provisions of PFUTP Regulations. In this regard, it will be pertinent to refer to the judgment of Hon'ble SAT in the matter of *HSBC Securities and Capital Markets (India) Private Ltd. v. SEBI*, SAT Appeal No. 99 of 2007 decided on February 20, 2008, wherein the Hon'ble SAT has held that "*an incorrect or wrong information in a letter of offer or other similar documents issued for the benefit of investors in general could lead to serious consequences including loss of credibility for the market operators and for the regulatory system. This kind of failure has to be taken very seriously by the market regulator*".

77. Section 11 of SEBI Act casts a duty on the Board to protect the interests of investors in securities and to promote the development of and to regulate the securities market. For achieving such object, it has been authorised to take such measures as it thinks fit. Thus, power to take all measures necessary to discharge its duty under the statute which is a reflection of the objective disclosed in the preamble has been conferred in widest amplitude. Pursuant to the said objective, PFUTP Regulations have been framed. The

said PFUTP Regulations apart from other things, aim to preserve and protect the market integrity in order to boost investor confidence in the securities market. In view of the same and considering the violations committed by the Noticees and in the interest of all investors and the orderly development of the securities market, I find that it becomes necessary to issue appropriate directions against the Noticees.

78. As noted above that, the allegation of violation of provisions of Sections 12A (a), (b) and (c) of SEBI Act and Regulations 3 (b), (c), (d) and Regulations 4(1) and 4(2), (e), (f), (k), and (r) of PFUTP Regulations and provision of Clause 32 of the Listing agreement read with Section 21 of the SCRA, 1956 against Noticee No. 1 to 7 stand established. Therefore, appropriate directions debarring Noticee No. 1 to 7 for suitable period of time from the securities market need to be issued against them for the said violation.

ORDER:

79. Considering the findings recorded in this order pertaining to the alleged violations committed by the Noticees, I, in exercise of the powers conferred upon me under Section 19 read with Sections 11(1), 11(4) and 11B(1) of the Securities and Exchange Board of India Act, 1992, hereby restrain the following Noticees from accessing the securities market and buying, selling or dealing in securities, either directly or indirectly, in any manner for the period mentioned below against their name from the date of this order. Further, following Noticees are also restrained from associating themselves 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 mentioned below against their name from the date of this order.

Noticee No.	Name of the Entities	PAN	Debarment Period
1	Coral Hub Limited	AAACS7326Q	Three (3) years
2	Mr. G.S. Chandrashekar	ACCPG6727C	Three (3) years
3	Mr. Dilip C Parekh	AACPP4242P	Three (3) years
4	Mr. G.S. Vishwanatham	AAZPV0140R	Three (3) years
5	Mr. D M Shirodkar	ABVPS3771Q	Two (2) years
6	Mr. Harish Sahu	ACKPS6919E	Two (2) years
7	Mr. Ghanshyam Joshi	ADCPJ1416A	Two (2) years

80. In view of the prohibition on sale of securities, during the period of restraint, the existing holding, including units of mutual funds, of Noticee No. 1 to 7 shall remain frozen.
81. If Noticees No. 1 to 7 have any open position in any exchange traded derivative contracts, as on the date of the order, they can close out/ square off such open positions within 3 months from the date of order or at the expiry of such contracts, whichever is earlier. Noticees No. 1 to 7 are permitted to settle the pay-in and pay-out obligations in respect of transactions, if any, which have taken place before the close of trading on the date of this order.
82. The order shall come into force with immediate effect.
83. A copy of this order shall be served upon all Noticees, all recognized Stock Exchanges, Depositories and the Registrar and Share Transfer Agents to ensure compliance with the above directions.

-Sd-

DATE: SEPTEMBER 03, 2021

PLACE: MUMBAI

MADHABI PURI BUCH

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA