

WTM/AB/IVD/ID19/14185/2021-22

SECURITIES AND EXCHANGE BOARD OF INDIA
FINAL ORDER

Under Sections 11(1), 11(4), 11(4A), 11A, 11B(1), 11B(2) read with Section 15HA and 15HB of the Securities and Exchange Board of India Act, 1992 read with Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and Sections 12A(1), 12A(2) read with Section 23E and 23H of Securities Contracts (Regulation) Act, 1956 read with Rule 5 of the Securities Contracts (Regulation)(Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005.

Noticee No.	Name of Noticees	PAN
1.	Iris Mediaworks Limited (presently known as Jump Networks Ltd.)	AAACB4506D
2.	Mr. Rajendra Karnik,	AACPK8192M
3.	Mr. Sandesh Sawant	AMGPS1282A
4.	Mr. Rakesh Naik	AMLPN7081K
5.	Mr. Kunal Ranjan	AGIPR6637E
6.	Ms. Neha Gupta	AIQPG8111Q
7.	Mr. Allan Rebello	AABPR3932K
8.	Mr. Mitesh Jani	AZNPJ4914C
9.	Mr. Atul Kumar	BAWPS1169M
10.	M/s D P Agarwal and Co., Chartered Accountants	Not Available
11.	M/s Agarwal Desai & Shah, Chartered Accountants	Not Available

(Aforesaid entities are hereinafter individually referred to by their respective name or noticee number and collectively as “the Noticees”.)

In the Iris Mediaworks Ltd.

1. The present order deals with three show cause notices (hereinafter collectively referred to as “**SCNs**”) issued by Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”), the details of which are as follows:
 - (i) Show Cause Notice No. SEBI/HO/IVD/ID19/OW/P/2020/0000013555/1 dated August 21, 2020 issued to Noticee nos. 1 to 9 (hereinafter referred to as “**SCN**”);
 - (ii) Show Cause Notice No. SEBI/HO/IVD/ID19/OW/P/2020/0000013560/1 dated August 21, 2020 issued to Noticee no. 10 (hereinafter referred to as “**SCN-II**”); and
 - (iii) Show Cause Notice No. SEBI/HO/IVD/ID19/OW/P/23059/1/2020 dated December 30, 2020 issued to Noticee no. 11 (hereinafter referred to as “**SCN-III**”);
2. SCN calls upon Noticee nos. 1 to 9 to show cause as to why suitable directions should not be issued and/or penalty not be imposed, as deemed fit under Section 11(1), 11(4), 11(4A), 11A and 11B(1), 11B(2) read with Section 15HA and 15HB of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act, 1992**”) and Sections 12A(1) & 12A(2) read with Sections 23E and 23H of Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as “**SCRA, 1956**”) against them for violations of Sections 12A(a), (b) & (c) of the SEBI Act, 1992 and Regulations 3(b), (c) and (d), 4(1), 4(2) (f) & (r) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as “**PFUTP Regulation, 2003**”), Regulations 4(1) (a), (b), (c), (e), (g), 4(2)(f)(ii)(6) & (7), 4(2)(f)(iii)(1), (3), (6) & (12), 6(1), Regulation 17(8) read with Part B of Schedule II, Clause B(2) of Schedule III read with Regulation 30, Regulations 23(2) and (4), 33(1) and 48 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as “**LODR Regulations**”) read with Section 27 of SEBI Act, 1992 and Section 21 of SCRA, 1956.

3. SCN-II, calls upon Noticee no. 10, to show cause as to why suitable directions, as deemed fit under Sections 11, 11B and 11D of SEBI Act, 1992, should not be issued against it for violation of Section 12A (a) (b) (c) of the SEBI Act, 1992 and Regulations 3(b), 3(c), 3(d), 4(1), 4(2)(a), 4(2)(e), 4(2)(f) and 4(2)(r) of PFUTP Regulation, 2003, as statutory auditor of Noticee no. 1 company for the financial year 2015-16.
4. SCN-III, calls upon Noticee no. 11, to show cause as to why suitable directions, as deemed fit under Sections 11, 11B and 11D of SEBI Act, 1992, should not be issued against it for violation of Section 12A (a) (b) (c) of the SEBI Act, 1992 and Regulations 3(b), 3(c), 3(d), 4(1), 4(2)(a), 4(2)(e), 4(2)(f) and 4(2)(r) of PFUTP Regulation, 2003, as statutory auditor of Noticee no. 1 company for the financial year 2016-17.
5. SCN and SCN-II was issued to Noticees nos. 1 to 10 on August 21, 2020. Noticee no. 11 filed a settlement application which was rejected on December 28, 2020. Accordingly, SCN-III to was issued to Noticee no. 11 on December 30, 2020.
6. The brief facts of the case, the brief findings of the investigation and the allegations levelled against the Noticees, as mentioned in the SCN are as follows:
 - 6.1 SEBI passed an interim order on September 12, 2017 *inter-alia* directing the promoters and the directors (Noticee nos. 2 to 9) of the Iris Mediaworks Ltd. (Noticee no.1, hereinafter referred to as "**the Company**" or "**Iris**") to only buy the securities of Iris and shares held by them in the Company shall not be allowed to be transferred for sale by depositories. Further, vide the said interim order, the stock exchange was directed to appoint an independent Forensic Auditor. As noted in the interim order as well as letter from SEBI to the exchanges (dated November 02, 2017), the 'Scope of Audit' included examination of:
 - 6.1.1 Possible misrepresentation including its financials and/ or business and / or violation of LODR Regulations and/or;

6.1.2 Possible misuse of the books of accounts/funds of the Company including facilitation of accommodation entries and/or entering into transactions to the detriment of minority shareholders and therefore reneging on the fiduciary responsibility cast on the board, controlling shareholders and key management person (KMP).

6.2 The forensic audit report was submitted to SEBI and the findings of the forensic audit report (for the period of April 1, 2015 till March 31, 2017) were examined by SEBI in the investigation.

6.3 The investigation by SEBI, *inter-alia*, revealed the following:

I. Misrepresentation including of financials and misuse of funds/books of accounts:

- a. The Company has Accepted / extended Loans & Advances to various entities without specifying the terms of repayment and paying / charging any Interest.
- b. Non- Disclosure of facts and figures in the financial statements with regard to related parties.
- c. Improper recording / grouping of assets / liabilities, negligible movements in Trade Payables / Receivables, non-provisioning of permanent diminution in value of investments
- d. Recording of sales / purchase without providing any evidence of physical movement of goods
- e. Improper disclosure of unquoted investments.
- f. Invested in companies in which directors of these companies are having relationship in other companies which having direct/indirect relationship with the Company.

- g. Use of bank account for round tripping off funds without having any underlying business transaction
- h. Receipts / payment of funds by the Company without any legit business objective
- i. Trade advances paid to companies which is strike off /certain companies does not exist as per public domain (MCA portal)
- j. The directors of companies, to whom trade advances are given, are having relationship in other companies which having direct/indirectly relationship with the Company.
- k. Trade advances given to different entities which are having same identical email id.
- l. Trade advances are pending since long still no action under taken by Company for recovery.
- m. No supporting/evidence available along with invoice for sales made
- n. Unusual transactions - Funds receiving from creditor & payment made to debtors.

In view of the above, SCN alleged that these irregularities tantamount to misrepresentation of financials /misuse of funds/ books of accounts of the Company during the investigation period and has misled existing and prospective investors and induced them to trade in the securities of the Company.

7. I note that Noticee no.1 sought inspection of documents in the matter. The request was granted and the inspection of documents was conducted on January 12, 2021.

8. Noticee no. 1 filed its reply to the SCN on June 15, 2021 denying all the allegations made against the Company. Also on August 11, 2021, Noticee no. 1 filed further reply to the SCN specifically denying all the allegations relating to violation of PFUTP Regulations. Noticee no. 2,3,4,7 and 8 submitted their reply vide separate letters dated July 28, 2021. Noticee no. 10 and 11 submitted their reply on March 20, 2021 and March 23, 2021 respectively. It is noted that Noticee no. 5, 6 and 9 sought extension for submitting their written reply vide separate letters dated March 26, 2021. However, no reply has been received from these Noticees.
9. Noticee No. 2 vide reply dated July 28, 2021 submitted that he was appointed as an Executive Director of Iris from June 17, 2008 to December 12, 2017 and that no specific role has been attributed to him to enable him to give a suitable reply to the SCN. The Noticee adopted the submissions made by Iris in its reply.
10. Noticee No. 3 vide reply dated July 28, 2021 submitted that he was appointed as an Executive Director of the Company from September 30, 2014 and resigned from the Company on August 26, 2016. During his term, Noticee No.3 was looking after the internal policies and procedures of the Company and was not a part of any committee. The alleged violations relate to granting loans, Related party transactions, negligible movements of trade receivables/ payables, recording of sales/ purchases, investment in various companies which are duties entrusted to the immediate management of the Company. Noticee no. 3 submitted that he was looking after the general management of the Company and was involved in the overall business strategy development of the Company and even by far stretch of imagination these violations are not applicable to him. Noticee No. 3 adopted the submissions made by Iris in its reply.
11. Similar submissions were made by Noticee No. 4 in his reply dated July 28, 2021 wherein he stated that he was appointed as an Executive Director of the Company in 2012 and resigned from the Board of Directors of the Company w.e.f. December 12, 2017. Noticee No. 4 also adopted the submissions made by Iris in its reply.
12. Noticee no. 7, vide his reply dated July 28, 2021 and during the personal hearing raised the following key contentions to the allegations in the SCN:

- i. I was appointed as Non-Executive Independent Director of the Company on September 30, 2014 to January 11, 2018.
 - ii. Considering I was only a Non-Executive, Independent Director, I submit that I was never involved in the day-to-day functioning of the Company and as not part of any business dealings etc.
 - iii. During my tenure, I only attended meetings as and when called upon by the Board and the Company.
 - iv. I submit that no specific role has been attributed to me to enable to give a suitable reply to the SCN. The full Forensic Audit Report has been forwarded without specifying any role of any of the directors to enable me to give reply.
 - v. I adopt the submissions made by Iris in its reply.
13. Noticee no. 8 also adopted the submissions made by Iris in its reply and submitted that he was appointed as an Additional Director of the Company on February 13, 2017 and resigned from the Company on January 14, 2019. Further, the Noticee submitted that he was associated with the Company as an Executive Director for only one month and all the findings and allegations observations in the SCN relate to FY 2015-16 and FY 2016-17.
14. Noticee no. 10 and 11, statutory auditors of the Company submitted that the issues raised by the Forensic Auditor are in the nature of questioning the internal processes of the Company and raising the question on the management's decisions taken during the period under review. The response/replies which are being asked by the Forensic Auditor could be better answered by the Company since the scope of the statutory auditor does not include vouching for the daily working and management decisions of the Company.
15. The personal hearing in the matter was scheduled on January 27, 2021 for Noticees no. 1 to 10, however, the delivery of hearing notice was not successful for Noticee no. 10, hence, the hearing for Noticee no. 10 was rescheduled for March 09, 2021. Hearing opportunity was granted to Noticee no. 11 on March 09, 2021. Noticees no. 1 to 9 requested for an adjournment of the hearing scheduled on January 27, 2021 on various grounds. Accordingly, another opportunity of hearing was granted to the

Noticees no. 1 to 9 on March 09, 2021. At the hearing on March 09, 2021, the authorized representative of Noticee no. 5, 6 and 9 sought an adjournment on the grounds that he was unable to meet and collate documents from his clients because of the ongoing pandemic. The authorised representative was informed that no adjournment is allowed on the ground stated and that Noticees may file their submissions, if any, within 15 days. On the scheduled date of hearing i.e. March 09, 2021, Noticee no. 1,2,3,4,7,8,11 sought adjournment for the hearing scheduled on March 09, 2021 on various grounds. Accordingly, the hearing for these Noticees was adjourned to April 01, 2021. It is noted that Noticee no. 10 was heard on March 09, 2021 and his hearing was concluded. On April 01, 2021, Noticee no. 1, 2 and 11 were heard and the hearing for these notices was concluded. On April 01, 2021 the authorized representatives of Noticee no. 3,4,7, and 8 appeared before the Whole Time Member and sought adjournment of the hearing. The request for adjournment was rejected and the entities were asked to file their submissions, if any, latest by April 21, 2021.

Consideration of submissions and findings:

16. I have considered the allegations in the SCNs, replies received, and submissions made by the Noticees during the personal hearing granted to them. The relevant provisions of law mentioned in the SCN are as follows:

Relevant extract of the provisions of SEBI Act, 1992:

Functions of Board.

11. (1) Subject to the provisions of this Act, it shall be the duty of the Board to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, by such measures as it thinks fit.

(2) Without prejudice to the generality of the foregoing provisions, the measurements referred to therein may provide for-

.....

(i) calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisations in the securities market;

(ia) calling for information and records from any person including any bank or any other authority or board or corporation established or constituted by or under any Central or State Act which, in the

opinion of the Board, shall be relevant to any investigation or inquiry by the Board in respect of any transaction in securities;

.....

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

12A. No person shall directly or indirectly-

- (a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;
- (b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;
- (c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

.....

Offences by companies.

27. (1) Where an offence has been committed by a company, every person who at the time the offence was committed was in charge of, and was responsible to, the Company for the conduct of the business of the Company, as well as the Company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence.

- (2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the Company, such director, manager, secretary or other officer shall also be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

Explanation: For the purposes of this section,- (a) "company" means any body corporate and includes a firm or other association of individuals; and (b) "director", in relation to a firm, means a partner in the firm.....

Relevant extract of provisions of SCRA, 1956:

Conditions for listing.

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

Relevant extract of the provisions of PFUTP Regulations, 2003:

“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.

4. Prohibition of manipulative, fraudulent and unfair trade practices

- (1) Without prejudice to the provisions of regulation 3, no person shall indulge in a fraudulent or an unfair trade practice in securities
- (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:-

.....

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

.....

- (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 relating to securities, including financial results, financial statements, mergers and acquisitions, regulatory approvals, which is not true or which he does not believe to be true prior to or in the course of dealing in securities;

.....

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

.....

Relevant extract of the provisions of LODR Regulations:

Principles governing disclosures and obligations.

4.(1) The listed entity which has listed securities shall make disclosures and abide by its obligations under these regulations, in accordance with the following principles:

- (a) Information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosure.
- (b) The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.
- (c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.
- (d)
- (e) The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made thereunder, are adequate, accurate, explicit, timely and presented in a simple language.
- (f)
- (g) The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognised stock exchange(s) in this regard and as may be applicable.

(2) The listed entity which has listed its specified securities shall comply with the corporate governance provisions as specified in chapter IV which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below.

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(f) Responsibilities of the board of directors:

The board of directors of the listed entity shall have the following responsibilities:

.....

(ii) Key functions of the board of directors-

.....

(6) Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.

(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of

control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

...

(iii) Other responsibilities:

- (1) The board of directors shall provide strategic guidance to the listed entity, ensure effective monitoring of the management and shall be accountable to the listed entity and the shareholders.

....

- (3) Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.

.....

- (6) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.

.....

- (12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities."

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Compliance Officer and his Obligations.

6. (1) A listed entity shall appoint a qualified company secretary as the compliance officer.

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Board of Directors.

17(1)

17(8) The chief executive officer and the chief financial officer shall provide the compliance certificate to the board of directors as specified in Part B of Schedule II.

.....

SCHEDULE II - PART B: COMPLIANCE CERTIFICATE

[See **Regulation 17(8)**]

The following compliance certificate shall be furnished by chief executive officer and chief financial officer:

- A. They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
 - (1) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

- (2) these statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- B. There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.
- C. They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the audit committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- D. They have indicated to the auditors and the Audit committee
- (1) significant changes in internal control over financial reporting during the year;
 - (2) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (3) instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the listed entity's internal control system over financial reporting.

Clause B(2) of Part A of Schedule III

PART A: DISCLOSURES OF EVENTS OR INFORMATION: SPECIFIED SECURITIES [See Regulation 30]

The following shall be events/information, upon occurrence of which listed entity shall make disclosure to stock exchange(s):

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- B. Events which shall be disclosed upon application of the guidelines for materiality referred sub-regulation (4) of regulation (30):

.....

(2) Change in the general character or nature of business brought about by arrangements for strategic, technical, manufacturing, or marketing tie-up, adoption of new lines of business or closure of operations of any unit/division (entirety or piecemeal).

.....

Disclosure of events or information.

Reg. 30. (1) Every listed entity shall make disclosures of any events or information which, in the opinion of the board of directors of the listed company, is material.

(2) Events specified in Para A of Part A of Schedule III are deemed to be material events and listed entity shall make disclosure of such events.

(3) The listed entity shall make disclosure of events specified in Para B of Part A of Schedule III, based on application of the guidelines for materiality, as specified in sub-regulation (4).

(4) (i) The listed entity shall consider the following criteria for determination of materiality of events/ information:

(a) the omission of an event or information, which is likely to result in discontinuity or alteration of event or information already available publicly; or

(b) the omission of an event or information is likely to result in significant market reaction if the said omission came to light at a later date;

(c) In case where the criteria specified in sub-clauses (a) and (b) are not applicable, an event/information may be treated as being material if in the opinion of the board of directors of listed entity, the event or information is considered material.

(ii) The listed entity shall frame a policy for determination of materiality, based on criteria specified in this sub-regulation, duly approved by its board of directors, which shall be disclosed on its website.

(5) The board of directors of the listed entity shall authorize one or more Key Managerial Personnel for the purpose of determining materiality of an event or information and for the purpose of making disclosures to stock exchange(s) under this regulation and the contact details of such personnel shall be also disclosed to the stock exchange(s) and as well as on the listed entity's website.

(6) The listed entity shall first disclose to stock exchange(s) of all events, as specified in Part A of Schedule III, or information as soon as reasonably possible and not later than twenty four hours from the occurrence of event or information: Provided that in case the disclosure is made after twenty four hours of occurrence of the event or information, the listed entity shall, along with such disclosures provide explanation for delay: Provided further that disclosure with respect to events specified in sub-para

4 of Para A of Part A of Schedule III shall be made within thirty minutes of the conclusion of the board meeting.

(7) The listed entity shall, with respect to disclosures referred to in this regulation, make disclosures updating material developments on a regular basis, till such time the event is resolved/closed, with relevant explanations.

(8) The listed entity shall disclose on its website all such events or information which has been disclosed to stock exchange(s) under this regulation, and such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

(9) The listed entity shall disclose all events or information with respect to subsidiaries which are material for the listed entity.

(10) The listed entity shall provide specific and adequate reply to all queries raised by stock exchange(s) with respect to any events or information: Provided that the stock exchange(s) shall disseminate information and clarification as soon as reasonably practicable.

(11) The listed entity may on its own initiative also, confirm or deny any reported event or information to stock exchange(s).

(12) In case where an event occurs or an information is available with the listed entity, which has not been indicated in Para A or B of Part A of Schedule III, but which may have material effect on it, the listed entity is required to make adequate disclosures in regard thereof

Related Party transactions.

23(1)

(2) All related party transactions shall require prior approval of the audit committee:

Provided that only those members of the audit committee, who are independent directors, shall approve related party transactions.

.....

(4) All material related party transactions shall require approval of the shareholders through resolution and no related party shall vote to approve] such resolutions whether the entity is a related party to the particular transaction or not: [Provided that the requirements specified under this sub-regulation shall not apply in respect of a resolution plan approved under section 31 of the Insolvency Code, subject to the event being disclosed to the recognized stock exchanges within one day of the resolution plan being approved;

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Financial results.

33.(1) While preparing financial results, the listed entity shall comply with the following:

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(c) The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India: Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

(d) The listed entity shall ensure that the limited review or audit reports submitted to the stock exchange(s) on a quarterly or annual basis are to be given only by an auditor who has subjected himself to the peer review process of Institute of Chartered Accountants of India and holds a valid certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India.

.....

(2) The approval and authentication of the financial results shall be done by listed entity in the following manner:

(a) The quarterly financial results submitted shall be approved by the board of directors: Provided that while placing the financial results before the board of directors, the chief executive officer and chief financial officer of the listed entity shall certify that the financial results do not contain any false or misleading statement or figures and do not omit any material fact which may make the statements or figures contained therein misleading

(3) The listed entity shall submit the financial results in the following manner:

- (a) The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange within forty-five days of end of each quarter, other than the last quarter.
- (4)
- (5) For the purpose of this regulation, any reference to “quarterly/quarter” in case of listed entity which has listed their specified securities on SME Exchange shall be respectively read as “half yearly/half year” and the requirement of submitting ‘year-to-date’ financial results shall not be applicable for a listed entity which has listed their specified securities on SME Exchange.

Accounting Standards.

48. The listed entity shall comply with all the applicable and notified Accounting Standards from time to time.....

17. Before proceeding with the merit of the matter, it will be relevant to discuss the background of the present proceedings. SEBI received a letter no. F. No. 03/73/2017-CL-II dated June 9, 2017 from the Ministry of Corporate Affairs (hereinafter referred to as “**MCA**”) vide which MCA had annexed a list of 331 shell companies for initiating necessary action as per SEBI laws and regulations. MCA had also annexed the letter of Serious Fraud Investigation Office, dated May 23, 2017 which contained the list of shell companies along with their inputs. In respect of listed shell companies including Iris vide its letter dated August 7, 2017, SEBI placed trading restrictions on promoters/directors so that they do not exit these listed companies. SEBI vide the said letter dated August 7, 2017 also advised the Exchanges to place the scrip in the trade-to-trade category with limitation on the frequency of trade and imposed a limitation on the buyer by way of 200% deposit on the trade value, so as to alert them on trading in the scrip. Thereafter, BSE vide notice dated August 7, 2017 issued to all its market participants, initiated actions envisaged in the SEBI letter dated August 7, 2017 in respect of all the listed companies, as identified by MCA and communicated by SEBI, with effect from August 8, 2017. On August 09, 2017, SEBI further advised the Exchanges to submit a report after seeking auditor's certificate, from all such listed companies, providing the status of certain aspects of these companies like compliance with Companies Act, whether company is a going concern and its business model, status of compliance with listing requirements, etc.

18. On August 21, 2017, Iris made a representation to SEBI. In the meantime, aggrieved by the aforesaid letters/notice dated August 7, 2017 issued by SEBI and BSE, Iris also filed an Appeal No. 204 of 2017 before Hon'ble Securities Appellate Tribunal, Mumbai (hereinafter referred to as "**SAT**"). Hon'ble SAT vide order dated August 23, 2017 directed the following:

"2. As the appellant has already made a representation to SEBI against the said ex-parte order dated 7th August, 2017, Counsel for the appellant on instruction seeks to withdraw the appeal with liberty to pursue the representation filed before SEBI. Accordingly, we permit the appellant to withdraw the appeal with liberty to pursue the representation pending before SEBI.

3. SEBI is directed to dispose of the representation made by the appellant as expeditiously as possible and in any event within a period of three weeks from today. It is made clear that passing of any order on the representation made by the appellant would not preclude SEBI from further investing the matter and initiate appropriate proceedings if deemed fit."

19. Pursuant to above mentioned order passed by Hon'ble SAT, SEBI had called for various information/ explanation from Iris and after granting an opportunity of personal hearing to Iris, an interim order dated September 12, 2017 (hereinafter referred to as "**the interim order**") came to be passed by SEBI, directing the following:

"26.....

- i. *The trading in securities of IML shall be reverted to XT group of BSE with applicable price band in trade to trade category.*
- ii. *Exchange shall appoint an independent auditor to conduct forensic audit of IML for verification, including the credentials/financials of IML.*
- iii. *The promoters and directors in IML are permitted only to buy the securities of IML. The shares held by the promoters and directors in IML shall not be allowed to be transferred for sale, by depositories.*
- iv. *The other actions envisaged in SEBI's letter dated August 07, 2017 in para 1 (d), as may be applicable, and the consequential action taken by Stock Exchanges shall continue to have effect against M/s IRIS Mediaworks Limited."*

20. I note that in terms of the interim order, Iris was provided time of 30 days to file its reply/ objections to the interim order, if any, failing which, preliminary findings of the

interim order and ad-interim directions contained therein were stipulated to stand confirmed against Iris automatically, without any further orders. Since no reply/objections were filed by Iris, the ad-interim directions contained in the interim order, automatically stood confirmed against Iris. BSE had appointed T R Chadha & Co LLP as the Forensic Auditor and the Forensic Audit Report (hereinafter also referred to as “**FAR**”) was submitted to BSE by T R Chadha & Co LLP. Thereafter, based on the Forensic Audit Report which was forwarded by BSE to SEBI on July 10, 2019, SEBI carried out an investigation in the matter. Based on the findings of investigation, the matter was placed before me on June 08, 2020 for approval of issuance of show cause notice and then was again placed before me on November 19, 2020 for granting a date for opportunity of hearing to the Noticees and passing a final order in the matter.

21. I shall now proceed to examine the allegations in the SCN and the contentions raised by the Noticees thereon. I note that allegations made in the SCN can be categorized as under:

- A. Violations of LODR
- B. Violations of PFUTP Regulations, 2003

In the following paras, all these have been dealt with my findings thereon.

A. Violations of LODR Regulations due to misrepresentation including of financials and misuse of funds/books of accounts:

22. Misrepresentation in financials relating to investments in other companies.
- 22.1 The SCN alleges misrepresentation in financials of the Company with respect to investment in companies whose directors have relationships in other companies which have direct/indirect relationship with the Company.
- 22.2 The said allegation in SCN is based on the following observation in the FAR:

“Details of Investments as per audited financials provided by the Company is as given below (Refer Annexure 3):

(Rs. in Crores)

Particulars	FY 2016-17	FY 2015-16
Share Application Money	62.89	65.99

Breakup of Share Application Money as per trial balance (Refer annexure 8 & 9- page no.4) provided by company is as follow:

(Rs. in Crores)

Sr.No.	Particulars	FY 2016-17	FY 2015-16	Remarks
A)	Current -Share Application Money			
1	Ailish traders Pvt Ltd	15.06	18.16	Refer point no.1.1.1
2	Sine Wave Biomass Power Pvt Ltd	1.00	1.00	---
3	Secundrabad Health Care Ltd	0.48	0.48	---
4	Adventure India	0.36	0.36	---
5	PJ Energy Pvt Ltd	0.25	0.25	Refer point no.1.1.2
6	Shri Gurudutt Sugars Ltd	0.25	0.25	----
7	Pinac Stock Broking Pvt Ltd	0.08	0.08	----
8	Mavv Trading Pvt Ltd	0.03	0.03	----
9	SKr Supreme Electronics & Trading Pvt Ltd	0.00	0.00	----
	Subtotal (A)	17.51	20.61	
B)	Non - Current -Share Application Money	-		
1	Emporis Project limited	36.03	36.03	Refer point no.1.1.3
2	Wellman Tradelinks Pvt Ltd	3.35	3.35	Refer point no.1.1.4
3	AMR Farm Pvt Ltd	1.49	1.49	Not available

				in MCA portal
4	Iskon Infoclect Pvt Ltd (as per MCA it is Iskon Infotech Pvt Ltd)	1.25	1.25	Refer point no.1.1.5
5	AJ POWER Pvt Ltd	1.00	1.00	Refer point no.1.1.6
6	Orange Mist Production Pvt Ltd	1.00	1.00	Refer point no.1.1.7
7	Excellent Agro Pvt Ltd	0.60	0.60	Not available in MCA portal
8	AJ Energy Pvt Ltd	0.25	0.25	Refer point no.1.1.8
9	Sangam Sugar Venture Ltd	0.21	0.21	Not available in MCA portal
10	Iskon Mining Pvt Ltd	0.20	0.20	Not available in MCA portal
11	Investment in subsidiary (IRIS USA)	0.01	0.01	----
	Subtotal (B)	45.38	45.38	
	Total Share Application Money	62.89	65.99	

Companies wise comments on the discrepancies observed which are as under:-

.....

On the review of audited financial of IRIS Mediaworks limited for the FY 2011-12 (Refer Annexure 14), it was observed that M/s. Ailish Traders Private Limited was shareholder of company holding 13.25 % of share capital (13.25 lacs shares) which makes the inflow into the company amounting to Rs.18.55 crores (including share premium) and same was sold out completely in FY 2013-14 (Refer Annexure 15). And as per company audited financial of FY 2015-16, the company had invested in same company through share application money of Rs. 18.16 crores. Thus, the fund received on sale of shares from Ailish Traders Pvt Ltd is infused back to Ailish Traders Pvt Ltd by way of share application money indicate cross investment by both the companies which create suspicion on genuineness of transaction

Further on the review of trial balance for the FY 2016-17 and annual report for FY 2016-17 **(Refer Annexure 9 & 3)**, company has received the money from Ailish Traders Private limited for amounting to RS. 3.10 crores from total share application money made of Rs. 18.16 crores and for such partial refund, no explanation provided by the Company kindly refer email sent to company dated 27th March 2018 **(Refer Annexure 32)**. On the review of bank statement received, it was observed that same receipt was not reflected in any of the banking transactions as well as bank reconciliation statements.

.....
.

.....it is clear that there is no intention of the Company to invest in Shares of various companies to whom the share application since there is no major change in the financial year 2015-16 & 2016-17 except reduction of Rs.3.10 Cr. in the year 2016-17 (this also not on account of issue of shares but on account of certain unexplained adjustments). Further we noted that neither company has received any shares from share application money and nor company received any refund from such share application money. Major observation is that the directors of investee company are having directorship in other companies with whom IRIS Mediaworks Limited has financial transaction. Since investment made prior to our audit period so have not traced the same in bank statements.

Thus, it indicates the misuse of the shareholder's funds and detrimental to interest of the minority shareholders."

22.3 With respect to the aforesaid allegation, Noticee No.1 has mainly submitted as follows:

"In so far as other unnumbered observation on Page 19 of FAR that the fund received on sale of shares from Ailish is infused back to Ailish by way of share application money indicate cross investment by both the companies which create suspicion on genuineness of transaction, we submit as under:-

.....

The suspicion has been raised on the basis of transactions which have been carried out in three different financial years and cannot be connected in any manner. The imagination of the Forensic auditor has been stretched to wild limits to connect the transaction carried out in three different financial years when there is no connection. In FY 2011 12, Ailish was a shareholder in Iris which they completely sold out by FY 2013-14 and then in FY 2015-16, we had invested in share application money of Iris and on this basis a suspicion has been

raised on the genuineness of the transaction. The submissions have been made in subsequent paragraphs.

.....

As regards Ailish being a shareholder in Iris is FY 2011-12, we submit that Iris being a listed company, any person become a shareholder of Iris and no allegation of connection of any sort with Iris can be made just on this basis. Admittedly, the shares were sold by Ailish completely in FY 2013-14 and the funds of sale of shares were received by Ailish. Therefore, no allegation can be levelled that the same funds were used to invest in the shares of Ailish in the FY 2015-16.

.....

As regards Observation given on Para 1.1.2 and Para 1.1.4 to 1.1.8 on Page 20 & 21 of FAR (Part 1 of FAR) that directors of PJ Energy Pvt. Ltd. ("PJ Energy"), Wellman Tradelinks Pvt. Ltd. (Wellman"), Iskon Infotech Pvt. Ltd. (Iskon"). AJ Power Private Limited ("AJ Power), Orange Mist Production Private Limited ("Orange"). AJ Energy Private Limited ("AJ Energy) are having directorship in other company with whom Iris is dealing, we submit as under:-

The Forensic auditor and SEBI being an expert in the field of accountancy has failed to appreciate that there is no embargo in law prohibiting dealing with different companies having same directors.

The transactions were carried out bonafide and in the ordinary course of business and no adverse inference ought to be drawn against us for the above.

.....

As regards Observation given in Para 1.1.3 on Page 20 of FAR (Part I of FAR) Emporis Project Limited ("Emporis") being suspected shell company and shareholders of Emporis having dealing with Iris, we submit as under:-

The Forensic auditor and SEBI being an expert in the field of accountancy has failed to appreciate that there is no embargo in law prohibiting dealing with different companies having same directors.

The FAR has failed to appreciate that there is no embargo in law which prohibits having business relationship with different entities who are the shareholders.

.....

As regards the conclusion on Page 23 of FAR that neither the Company has received any shares from share application money and nor company received any refund from such share application money, we submit that we are continuously following up with these companies to return the funds failing which we are planning to take legal action.

.....”

- 22.4 I note that the present allegation in SCN has been made for the reason that in FAR observations have been made regarding the genuineness of the investment made by the Company in the shares of 20 companies as referred to in para 22.2. The Company has mainly contended that these investments are genuine. It is noted that the Company has not provided any evidence of receipt of shares in exchange of share application money or refund of the share application money in support of its contention. Further, the Company has also not provided any evidence of following up with the investee companies for returning the funds. I further note that the FAR has made specific observations regarding no major change in the status of refund of share application money or issuance of shares in the F.Y 2015-16 & 2016-17 except reduction of Rs. 3.10 crores in the year 2016-17 w.r.t to one company i.e. Ailish. As per the FAR, the said reduction is also not recorded on account of issuance of shares by Ailish to Iris. Moreover, as per the FAR, the refund of Rs 3.10 cores is not reflected in the bank account of the Company. Noticee No.1 has not provided any explanation or supporting evidence to prove that the funds transferred to companies mentioned at paragraph no. 22.2 are investments in the shares of the companies. It is noted that as per Section 42(6) of Companies Act, 2013 read with Companies (Shares and Debentures) Rules, 2014, shares have to be allotted within 60 days of receipt of share application money and if it is not allotted, money has to be refunded within 15 days. Further, in case of failure to refund the money, interest at the rate of 12% per annum is payable. In the present case, Noticee No.1 has not provided any evidence that it has been allotted shares or due to failure to allot shares the investee companies have refunded the share application money along with interest at the rate of 12% per annum to the Company. I am therefore, inclined to accept the observation of FAR that there is no intention of the Company to invest in shares of various companies to whom the funds have been transferred.

- 22.5 As regards investments in one of the investee companies out of the 20 investee companies i.e. Ailish, FAR notes the inflow of Rs.18.55 crores in the Company during FY-2011-12 on account of Ailish's shareholding in the Company. As per the FAR, these funds were used by Iris to invest in the shares of Ailish in the FY 2015-16. The FAR also observes that the said shareholding of Ailish was completely sold out by FY 2013-14. The Noticee No. 1 in this regard has contended that since the shares were sold completely by Ailish in FY 2013-14, the funds of sale of shares were received by Ailish and therefore, the allegation of using the same funds to invest in the shares of Ailish in the FY 2015-16 cannot be levelled against Iris. In absence of any finding in the FAR that the funds received by Ailish after sale of the Company's shares in 2013-14 were transferred to Iris, I find that the observation in the FAR that same funds were used by Iris to invest in the shares of Ailish in the FY 2015-16 may not be correct. However, it is noted that the investments of Iris in the companies mentioned in paragraph 22.2 including Ailish are not genuine as Noticee no.1 has not provided any supporting document such as proof of receipt of shares, bank statements for refund of share application money and board approval for such huge investments in shares of other companies. Moreover, although Noticee No.1 has stated that they are continuously following up with these companies to return the funds, no proof of following up with the companies has been provided by the Noticee. In absence of any proof of legal notice served or civil suit filed for recovery of money, I am inclined to agree with the observation of the FAR in this regard. Accordingly, I find that the Company has misrepresented its financial statements and overstated its investments w.r.t to investments in 20 companies in the Annual Reports for F.Y 2015-16 and F.Y 2016-17.
- 22.6 As regards, the observation in FAR that directors of investee companies are having directorship in other companies with whom Iris has financial transaction, Noticee No.1 has submitted that there is no embargo in law prohibiting dealing with different companies having same directors. It is noted that no observation is made in the FAR as to how the common directorship in investee companies and companies having financial transactions with Iris indicates misrepresentation of financial statements or misuse of funds by Iris. Further, in absence of any finding in the FAR that these transactions can be construed as related party transactions that require approval of the audit committee of Iris or attracted any other provision of law which

has not been complied by the Company, I find that no adverse inference can be drawn against the Noticee No.1 based on these observations in the FAR.

23. Misrepresentation in financials relating to trade advances paid to other companies.

23.1 The SCN alleges that trade advances are paid to companies which are strike off /certain companies that do not exist as per public domain (MCA portal). Moreover, the directors of companies, to whom trade advances are given, are having relationship in other companies which have direct/indirect relationship with the Company. SCN also alleges that Iris gave trade advances to different entities having identical email ids and that Iris did not take any action for recovery of long pending trade advances.

23.2 The said allegation in SCN is based on the following observation in the FAR:

“1.2 Misusing of funds of the Company related to the trade advances paid.

Details of Trade Advance as per the audited financials for the period under audit are as under (Refer Annexure 3):

(Rs. in crores)

Particulars	FY 2016-17	FY 2015-16
Trade Advances	70.68	67.91

Breakup as follow:

(Rs. in crores)

Sr. No.	Particulars	FY 2016-17	FY 2015-16
1	Naroris Impex Pvt Ltd	25.77	25.77
2	Gill entertainment Pvt Ltd	7.39	7.39
3	Golding Mercantile Pvt Ltd	5.65	5.65
4	Meritorious Realty Pvt Ltd	4.66	4.66
5	Kinita Real Estate Pvt Ltd	4.13	4.13
6	Pro Fin Capital Services Ltd	3.80	0.07
7	Gajpal Buildinfra Pvt Ltd	3.45	3.45
8	Offerlink Infraprojects Pvt Ltd	2.50	2.50
9	Lifefour Multitrading Pvt Ltd	2.01	2.01

10	Dizzystone Trading Pvt Ltd	1.50	1.50
11	Kavita Infracon pvt ltd	1.48	1.48
12	Nishottam Traders Pvt Ltd	1.47	1.47
13	Parkway Properities Pvt Ltd	1.10	1.10
14	Addo Construction Pvt Ltd	0.60	0.60
15	Ethan Construction Pvt Ltd	0.57	0.57
16	Cybertech Infractive Ltd	0.50	0.50
17	Moanaecum Properities Pvt Ltd	0.50	0.50
18	Secure Mercantile Pvt Ltd	0.50	0
19	Prraneta Industries Ltd	0.48	0.48
20	Intertick developers Pvt Ltd	0.44	0.44
21	Hicons Developers pvt ltd	0.40	0.40
22	ASBN Commodities & Fineserve Pvt Ltd	0.36	0.36
23	Jabeen Trade link Pvt Ltd	0.36	0.36
24	Futura ready Mix Concrete Pvt Ltd	0.25	0.25
25	L N polyesters Ltd	0.22	0.22
26	Naseen Tradelink Pvt Ltd	0.15	0.15
27	Anant Enterprises Pvt Ltd	0.10	0.10
28	Jayesh R Thakar	0.10	0.10
29	Omkam Global Capital Pvt Ltd	0.10	0.10
30	Aristo Media & entertainment Pvt Ltd	0.08	0.08
31	Grantview Properities Pvt Ltd	0.08	0.08
32	Aryaman financial Services Ltd	0.01	0.01
33	Nutek India Ltd	0	1.02
34	Sai Industries *	0	0.36
35	First call advisory India Pvt Ltd	0.05	0.08
	Total	70.68	67.91

It is observed that email id of Gajpal Buildinfra Private limited is found to be same in other parties with whom the company is having financial transactions. Details of the parties who have same email ID as per the information available in public domain (as per MCA portal) and for financial transaction relation refer trial balance for FY 2015-16 & FY 2016-17 refer annexure 8 & 9. Following are the details of same:

(Rs. in Crores)

Particulars	Rs. in Crores	Nature	Email id (as per MCA Portal)
Gajpal Buildinfra Pvt Ltd	3.45	Trade Advance Paid	dadheechrmanseta@gmail.com
Naseen Tradelink Pvt Ltd	0.15	Trade Advance Paid	
Sanmay Trading Pvt Ltd	0.01	Unsecured loan taken	

.....

1. None of the trade advance is backed by any underlying trade transaction because no purchase transaction carried out by the parties to whom trade advances are given. Further, company did not provide any supporting such as agreement or documents indicating the purpose of giving such trade advances inspite of seeking clarification from the Company for trade advance details vide email dated 27th March 2018 (Annexure 32). This is based on our analysis and reviewing various documents such as trial balance & purchase register for FY 2015-16 & FY 2016-17 (refer annexure 8,9 & 29), it is seen that company has only 3 suppliers with whom company have made purchase in FY 2015-16 & FY 2016-17, namely Avance Technologies Limited, Mobile Telecommunication Limited and Jigar Mercantile Pvt Ltd.
2. Above 20 out of 35 companies to whom the advances are given, whose directors have direct/indirect relationship in companies who having financial transaction with IRIS Mediaworks Ltd and in almost all such companies money is received from them in form of trade advance, share application money etc.
3. There is no movement in most of trade advances given as advances in financial year 2015-16 and also no action has been taken by the Company to recover such advances.
4. Balance confirmation copies w.r.t trade advance receivable provided by company are without acknowledged hence cannot relied on the same (Refer annexure 26).

Thus, it indicates that the Trade Advances of Rs.67.19 Cr. outstanding at the beginning of the year 2016-17 is possible misuse of funds by the Company by diversifying its fund in various companies and without any benefit to its minority shareholders.”

23.3 As regards, the allegation of giving trade advances to companies which are strike-off, the Noticee No. 1 has submitted as follows:

“As regards dealing with companies whose names have been struck off i.e ASBN, Futura, Anant and Aristo, we submit as follows:-

- i) That at the time we dealt with these companies no information was available in public domain that their name has been struck off and further submit that we have dealt

with these companies only when they were functioning properly. Pursuant to the information available in public domain that their names have been struck off, we have not dealt with these companies.

- ii) The information that names of many companies have been struck off from records of MCA came in public domain somewhere in middle of June 2017. It was declared by way of Office Note that pursuant to Section 248 (5) of The Companies Act, 2013, names of some companies have been struck off from MCA. A copy of the covering page of said office memorandum is annexed hereto at Annexure 2.
- iii) We have carried out transactions with the aforesaid entities prior to this order and to allege any violation on our part when the information was not available in public domain is untenable in fact and law. This has vitiated the whole proceedings.”

23.4 I note that the FAR has made adverse observations with respect to Iris making trade advances to 35 companies which are dealt with in para 23.7. As regards 4 companies out of 35 companies i.e. ASBN Commodities & Fineserve Pvt Ltd. (**“ASBN”**), Futura ready Mix Concrete Pvt Ltd (**“Futura”**), Anant Enterprises Pvt Ltd (**“Anant”**) and Aristo Media & entertainment Pvt Ltd (**“Aristo”**), FAR observes that the names of these companies are struck off from the records of MCA as per the information available in public domain (as per MCA portal) during the period when Forensic Audit was conducted. As per the Public Notice No. ROC-MUM/Section248/2017/STK-7/1 dated July 10, 2017 (hereinafter referred to as “Public Notice”) provided by Noticee No.1, only the name of Aristo was struck-off on June 16, 2017. The names of ASBN, Anant and Futura are not found in the names of companies struck off vide the said Public Notice. However, from the Company Master Data available on MCA website, it is noted that the names of ASBN, Anant and Futura have been struck off from the register of companies. The date of strike off is not available in the FAR. It is noted that the Public Notice is issued with respect to Office Notice No. ROC/Section248/StrikeOff/2017 and notice in form STK 5 issued on April 28, 2017, May 02, 2017 and May 03, 2017 (hereinafter collectively referred to as RoC Office Notice). On perusal of other Public Notices issued for striking off names of companies with respect to RoC Office Notice, it was observed that the name of Futura is struck off on June 23, 2017 vide Public Notice No. ROC-MUM/Section248/2017/STK-7/2 dated July 10, 2017. Although Anant and ASBN are shown as struck off as per the records of MCA, the date of their striking

off is not available. Further Noticee No.1 has not provided any evidence indicating the date of striking off of these two companies. Thus, it cannot be ascertained whether the trade advances to these entities were made before the date of striking off. Therefore, I find that as regards Anant and ASBN, the observation in the FAR is correct. Whereas the observations regarding Aristro and Futura in the FAR are not correct since the companies were struck off on June 16, 2017 and June 23, 2017, respectively, and as per the FAR the trade advances were paid to these entities prior to striking off of the name of these companies. By reporting the advances made to strike off companies as trade advances in the financial statements, the Company has misrepresented its financials.

- 23.5 As regards, the allegation that Iris did not take any action for recovery of long pending trade advances and misrepresented the financials relating to trade advances given to 35 entities, the Noticee No. 1 has mainly submitted as follows:

“
As regards the purported conclusion (serial number 1) at Para 1.2 on Page 34 of FAR that *“None of the trade advance is backed by any underlying trade transaction....., it is seen that company has only 3 suppliers with whom company have made purchase”*, we submit that all the funds were paid through banking channels, have been recorded in the books of accounts and for which complete audit trail is available. This establishes that funds have been utilised for genuine business purposes and there is no siphoning off of funds to warrant serious allegation of SEBI Act/ PFUTP Regulations etc. We are in continuous touch with these entities for recovery of funds failing which we shall take appropriate legal action to recover the funds or to get the goods ordered. A ledger of all the entities duly confirmed by the respective entity for financial years is annexed hereto at Annexure 4.
.....

As and purported conclusion no.3 at Page 35 of FAR that there is no movement of trade advances given in advances in financial year 2015-16 and also no action on been taken by the Company to recover such advances we submit that the said allegation is baseless and without any documentary evidence. We have been my following up with these entities either for the goods or for the recovery of advances, however, we are yet to receive any response from them and we are willing to take legal action against them. In one case of trade advance given to an the name of Mobile Telecommunications Ltd it is observed the amount due as on the beginning of FY

2014-15 was around Rs 32.64 crore During the year the efforts were made and as on the last day of the same FY only Rs 3,14 core was due. A copy of the confirmation of accounts duly signed by Iris and counter signed by Mobile Telecommunications Ltd. for the FY 2014-15 is annexed hereto at Annexure 5, hence the allegation made by the Forensic Auditors based on surmises and conjectures & is out of context.

.....”

23.6 As regards, the allegation that Iris paid trade advances to companies whose directors are having relationship in other companies which have direct/indirect relationship with the Company, the Noticee No. 1 has submitted as follows:

“

As regards the purported conclusion (serial number 2) of Para 1.2 on Page 34 of FAR that "Above 20 out of 35 companies to whom the advances are given, whose directors have direct/ indirect relationship in companies who having financial transaction with and in almost all such companies money is received from them in form of trade advance, share application money etc.", we submit as under

- i) The Forensic auditor and SEBI being an expert in the field of accountancy has failed to appreciate that there is no embargo in law prohibiting dealing with different companies having same directors.
- ii) The transactions were carried out bonafide and in the ordinary course of business and no adverse inference ought to be drawn against us for the above.
- iii) No violation of any specific provision has been alleged on the basis of above and this also establishes that the SCN is not specific and is based on surmises and conjectures. The adverse inference drawn is totally erroneous unjustified and unwarranted.
- iv) This has vitiated the whole proceedings and whole charge has become unsustainable.
- v) The alleged purported observation is totally unjustified and unwarranted since the exact provision which has been alleged to be violated has not been specified.
- vi) We have not received complaint from any shareholder, either minority or majority, regarding so called misuse of funds as alleged by the Forensic Auditor.

.....”

23.7 I note that for the financial year 2015-16 and 2016-17, the FAR at page 21 notes that Iris had paid 67.91 and 70.68 crores, respectively, as trade advances to 35 entities. As per the FAR, the balance confirmation copies w.r.t trade advance

receivable provided by Iris are unacknowledged copies of account balances. It is noted that Iris has provided a copy of ledger accounts countersigned by several entities with its reply to the SCN for the first time in the current proceedings. Moreover, it is noted from the FAR that Noticee No.1 did not provide any evidence of the underlying trade transactions and supporting documents such as agreements indicating the purpose of providing trade advances even though specific clarification was sought by the auditor in this regard vide email dated March 27, 2018. The Noticee no. 1 has provided copy of confirmation of accounts countersigned by one entity Mobile Telecommunications Ltd. that displays receipt of 27.5 lakhs in the account of Iris in the FY 2014-15. It is noted that Mobile Telecommunications Ltd is not included in the list of 35 entities mentioned at para 23.2 above and the receipt of funds from this entity pertains to FY 2014-15. Accordingly, payment received from Mobile Telecommunications Ltd. is not relevant for dispelling the observations made in FAR in this regard. Thus, I find that the trade advances paid to the above 35 entities outstanding at the beginning of the year FY 2015-16 and FY 2016-17 were misrepresented.

23.8 As regards, the observation in FAR that Iris paid trade advances to companies whose directors are having relationship in other companies which have direct/indirect relationship with the Company, Noticee No.1 has submitted that there is no embargo in law prohibiting dealing with different companies having same directors. It is noted that the FAR does not state as to how the common directorship of companies that received trade advances with the companies that have financial transactions with Iris was in violation of any law. Further, in absence of any finding in the FAR that these transactions can be construed as related party transactions that require approval of the audit committee of Iris or were in violation of any other provision of law, I find that no adverse inference can be drawn against the Noticee No.1 based on these observations in the FAR.

23.9 Similarly, as regards the observation in the FAR that entities Gajpal Buildinfra Pvt Ltd, Naseen Tradelink Pvt Ltd. and Sanmay Trading Pvt Ltd. which received trade advances and unsecured loans from Iris have same email ids, it is noted that although common email ids may indicate some relationship amongst these companies, the FAR does not state as to how the financial transactions of Iris with

these companies are in violation of provisions of any law. In absence of any finding in the FAR that these transactions can be construed as related party transactions that required approval of the audit committee of Iris or were in violation of any other provision of law, I find that no adverse inference can be drawn against the Noticee No.1 based on these observations in the FAR.

24. Misrepresentation in Financials on account of accepting and extending loans and advances to various entities.

24.1 The SCN alleges that the Company has accepted and extended loans and advances to various entities without specifying the terms of repayment and paying / charging any Interest. It is also alleged that the Company received and paid funds without any legitimate business objective.

24.2 The said allegation in the SCN is based on the following observation in the FAR:

“Breakup of Loans & advances as per the trial balance as on 31st March 2016 provided by the Company (Refer annexure 8):

Sr. No.	Loans & Advances (Asset)	Rs. in Crores
1	Blue Circle Infratech	0.90
2	First Call Advisory India Pvt Ltd (Roc Expenses)	0.00 (Rs.4,862)
3	Meridian BuildPro Pvt.Ltd.	0.55
4	Profession Tax Paid Employees	0.01
5	Speciality Paper Ltd-Adv	0.51
6	Sunder Developers & Exhibitors Pvt.Ltd	0.01
7	Vaishali Rajendra Karnik	0.08
	Total	2.06

We have not been provided loan agreement copy, document indicating that any action taken by the Company for recovery for loans outstanding from long period, balance confirmation copy and justification for not booking interest income which was sought from the Company vide our email dated 27th March 2018 (Refer Annexure 32).

.....

Advances given to Vaishali Rajendra Karnik who is promoter of company is contravention of sec 185 of company's act 2013 which prohibits company to provide loan to any of its directors.

.....”

24.3 As regards the above allegations, Noticee no.1 mainly submitted as follows:

“ As regards Para 5b on Page 43 of FAR, we submit as under

As regards advances given to Speciality Paper Limited (“Speciality”), we submit that we had bought shares of Speciality and funds were paid to them as Share Application money. These shares were later on sold to Narois Impex P Ltd, and we had a Long Term Capital Gain of around Rs. 19.67 lakh. A copy of ledger of Speciality in our books counter signed by Speciality for the relevant year is annexed hereto at Annexure 9. We further submit that Speciality was not a Shell company at the time when the investment was made and no information was available in public domain regarding the same. We have not dealt with Speciality after the information regarding its shell company status has been available in public domain. As the funds advanced were in the nature of investment, no interest income could have been booked. This establishes that no proper investigation has been carried out to unearth the full truth and the SCN is based on surmises and conjectures. Needless to say the same was recorded in books of accounts, funds were paid and received through routine banking channels for which complete audit trail is available and hence, no adverse inference ought to be drawn against us for the above.”

As per policy, we used to book interest income on receipt basis and accordingly since the interest was not received, interest income was not booked.

.....

As regards advances given to Vaishali Rajendra Karnik, we submit that same was given on returnable on demand basis and therefore no adverse inference ought to be drawn against us for the same. It is SEBI's own case that Section 185 prohibits loan to any of its directors, however, here the advance was given to promoter and that too on returnable basis. In view of the same, we deny that we have violated Section 185 of the Companies Act, 2013.

24.4 It is noted that Noticee No.1 advanced loans to various entities as shown in para 24.2 without any loan agreement and has not charged any interest for the same. As per the observation of FAR on page 41, the Company failed to provide any balance confirmation copy and justification for not booking any interest on loans which was sought by the Forensic Auditor vide email dated

March 27, 2018. As regards the allegation of providing funds to Speciality Paper Limited (**“Speciality”**), the Noticee No.1 has submitted that funds were paid to Speciality as Share Application Money. I note that the Noticee No.1 has submitted the copy of the ledger account of Iris counter-signed by Speciality acknowledging the receipt of Rs. 25,56,97,000/- as share application money for the first time in the present proceedings. However, Noticee No.1 has not provided any proof of receipt of shares from Specialty in support of its submission. I am therefore inclined to accept the observation of FAR in this regard.

24.5 As regards, the allegation in the SCN for providing advances to Vaishali Rajendra Karnik, it is noted that Iris has not provided any document specifying the terms of repayment or interest chargeable on the advances provided. Thus, I note that the Noticee has made bald statements that advances were given to Vaishali Rajendra Karnik on returnable basis. It is noted that Iris had not provided any document to show that the Company attempted to recover the loans outstanding from a long period or intended to charge interest on the loans provided in spite of specific clarification sought by the auditor vide email dated March 27, 2018. Thus, I find that the funds disclosed as long term loans and advances by Iris in its audited financials for F.Y 2015-16 were not advances or loans provided on returnable basis and hence, are misrepresented to that extent.

24.6 With respect to the allegation of providing loan to the promoter, Vaishali Rajendra Karnik, in violation of Section 185 of Companies Act, 2013, it is noted from the FAR that the promoter Vaishali Rajendra Karnik, is relative of Noticee No.2 who is the Managing Director of Iris. Noticee No. 1 has contended that Vaishali Rajendra Karnik is the promoter of the Company and Section 185(1) is applicable only in relation to a director of the Company and hence is not attracted in this case. I note that Section 185(1) of Companies Act, 2013 provides that no company shall provide advance or loan to any of its directors or to any other person in whom the director is interested. Explanation (a) under Section 185(1) provides that the expression “to any other person in whom

director is interested” includes any relative of the director. The relevant provisions of Section 185 of Companies Act, 2013 are reproduced below:

185. Loan to directors, etc.— (1) Save as otherwise provided in this Act, no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person:

.....

Explanation.—For the purposes of this section, the expression —to any other person in whom director is interested means—

(a) any director of the lending company, or of a company which is its holding company or any partner or relative of any such director;

.....

24.7 The prohibition under Section 185 is applicable in giving loans to not only directors but also to any other person in whom the director of the Company is interested. Thus, I find that the Company provided loan to Vaishali Rajendra Karnik who is a relative of the Managing Director of the Company in violation of Section 185 of the Companies Act, 2013. By violating the provisions of Section 185 of the Companies Act, 2013, the Noticee no.1 has also violated Regulation 4(1)(g) of LODR Regulations which provides that the listed entity shall abide by all the provisions of applicable laws.

25. Misrepresentation in financials on account of recording sales/purchases without any actual transactions.

25.1 It is alleged in the SCN that Iris has recorded sales/purchase without providing any evidence of physical movement of goods or invoice for sales and used bank accounts for round tripping off funds without having any underlying business transaction.

25.2 It is observed that the said allegation in the SCN is based on the following observation in the FAR:

“Sales made to Empower India Limited:

As per sales register for FY 2015-16 & FY 2016-17 -Refer annexure 11(b), major sales was made to empower India Limited of Rs.100.41 crores & Rs.46.97 crores respectively. Empower India Limited is included in the 16 listed companies as mentioned in SEBI order in the matter of **M/s Kavit Industries Limited** which are suspected companies.

Our observation w.r.t sales made to Empower India Limited in FY 2015-16:

Entire sales of Rs. 100.41 crores for the year 2015-16 was made to single customer Empower India Limited in FY 2015-16 as per sales register provided by the Company. On the vouching of sample invoices submitted by the Company vide their letter / email dated 09th January 2018, neither of the invoices was having supporting attached to it such as delivery challan, sales order, transport charges etc. (Refer annexure 34). Further, it is also observed that Rs.0.96 crores receivable from Empower India Limited adjusted against payable, namely Avance technologies Limited as per balance confirmation copy of Avance technologies Limited provided by company as on 31.03.2016 (Refer annexure 35). However, said confirmation copy was without acknowledged hence same cannot be relied. Also, ledger copy of Avance technologies limited for FY 2015-16 contains no narration providing justification for such adjustment carried out (Refer annexure 36) and we have not been provided the ledger copy of Empower India limited of audit period by company for our verification which was sought vide our email dated 30th April 2018 (Refer annexure 37).

.....
Also, we observed that company made payment to said customer of Rs.26.24 crores from the IDBI bank (as per IDBI bank ledger FY 2015-16) which create suspicion over the nature of transaction.

Further we observed that bank receipt from the sale of material is identical as amount paid for purchases. For detail refer para Part II point no.7.

Our observation w.r.t. sales made to Empower India Limited in FY 2016-17:

It is to be noted that company made sales 51.69 % of total sales of Rs. 90.87 crores to Empower India Limited in FY 2016-17 as per sales register provided by the company -refer annexure 11(b).

.....
Also, we observed that there are no receipt received from the Empower India Limited as per bank ledger and bank statement provided by the company for FY 2016-17 (refer annexure 16). However, the company made payment to said customer of Rs.39.25 lakhs from the IDBI bank (as per IDBI bank ledger FY 2016-17) which create suspicion over the nature of transaction. In

absence of detail trial balance of FY 2016-17 and ledger copy we are unable to verify how the accounts are settled.

As per the information available on public domain (as per MCA portal) we observe that many of the companies having business relationship with IRIS are directly or indirectly related to Empower India Limited.....

a. Vaishali Rajendra Karnik the promoter of Irish Mediaworks limited is also director in a company viz. Saneesh Infotech Private Limited where Vinod Bharat Shinde is also a director having directorship in Secure Mercantile Pvt Ltd with whom company paid trade advances. And Vinod Bharat Shinde is the CEO and executive director of Empower India Limited as per its audited financial of FY 2015-16 and FY 2016-17 (Refer annexure 11 – FY 2015-16 -page no.2 & 8 & FY 2016-17 – page no.16). This further confirms that the dealings among the associate / group companies are in the nature of accommodation transactions.

b. Sangeeta Prakash Hingorani is the common director of Vihar Infrastructure Private Limited and Pavitra Mall Management Co Private Limited. Vihar Infrastructure Private limited is the shareholder of M/s Empower India Limited holding 3.96 % of share capital whereas IRIS Mediaworks Limited has received trade advance from Pavitra Mall Management Co Pvt Ltd Rs. 0.50 lacs.

c. It may be noted that Sally Media & Entertainment Private limited are shareholders of M/s Iris Mediaworks limited. Mr. Balu Gagan Singh is the common director of Sally Media & Entertainment Private limited and Akansha Media and Entertainment Pvt Ltd. Akansha Media and Entertainment Pvt Ltd is the shareholder of M/s. Empower India Limited having shareholding of 6.18 % of share capital

d. Wellman Tradelinks Private Limited is the shareholder in the M/s Empower India Limited holding 5.86 % of share capital. Iris Mediaworks Limited has made investment through share application in said company amounting to Rs. 3.35 crores.

e. From the availability of bank statements copy (refer annexure 16), the movement of funds w.r.t. Empower India Limited & Secure Mercantile Limited observed are as follow:

(Rs. in Crores)

Name of Bank	Empower India Limited	Secure Mercantile Limited
IDBI Bank	79.50	-0.50
Net receipt/(payment)		
OBC Bank	0.25	0

Net receipt/(payment)		
Total	79.75	-0.50

From the above this is evident that the part of sales made to Empower India Limited was part of round tripping transaction and not in ordinary course of business.

Sales made to Milap Trading Private Limited (name changed to Vedmehta Nutrients Foods Private Limited):

On the review of sales register for FY 2016-17 - **Refer Annexure 11(b)**, it is observed that sales made to M/s Milap Trading Private Limited amounting to RS. 43.09 crores sales made from 1st October 2016 to 31st March 2017.

The Company has failed to provide ledger copy, balance confirmation as on 31.03.2017 for verification inspite of our email to company dated 27th March 2018 & 30th April 2018 (Refer Annexure 32 and 37).

Also, on the review of trial balance of FY 2016-17, it is observed that sundry debtors credit shown of Rs.156.46 crores whereas as per bank accounts total collection made is only of Rs.8.46 crores. For detail observation refer Part II, para 3.5 (d). Hence, in absence of any supporting documents, genuineness of sales transaction carried out by company w.r.t Milap trading Private Limited cannot be ascertained.

As per the information available in public domain (MCA portal), we also observed that director of Milap Trading Private Limited having directorship in company with whom company having financial transactions refer Annexure 10 & Annexure 11(a). And for financial transaction refer purchase register (Annexure 29). Following are the details of same:

Particulars	Relation in Milap (Vedmehta Nutrients Foods Private Limited)	Relation in Mobile Telecommunication Ltd (refer annexure 11 – page no.16)
Anil Babulal Vedmehta	Director	Managing Director

On the review of trade receivable list details for FY 2015-16 (Refer annexure 13) provided by the Company, it is shown that there is receivable from Mobile telecommunication limited as on 31.03.2016 of Rs.4.28 crores. And on the review of purchase register details for FY 2015-16 (Annexure 29), company made purchase from the said party of Rs.0.86 crores dated 31.03.2016. Further, it may be noted that company has not provided any supporting for said purchases such as any purchase agreement/contracts, delivery challan, goods receipt note from which it is evident that purchase took place. Hence, altogether it does not appear to be ordinary nature of transaction in course.

.....
High value bank transactions to ascertain their relevance to the business of the company and to identify the potential round-tripping of funds or accommodation transactions. Wherever applicable, the relevant funds flow including analysis of relevant bank statements (also source and utilization of funds)

IDBI bank A/c No: 0452102000011015 (Refer Annexure 16)
.....

From the above, it can be observed that in case of IDBI account the amount received from sale of material is identical as amount paid for purchases. Also read with our observations about the relationship of IRIS / Empower {Refer Point no I (4)(i)}. Further, the amount received from supplier namely, Avance Technologies limited on the basis of purchase register (Refer annexure 29) provided by the Company raises caution over nature of transaction hence altogether the transactions are not in ordinary course of business.

From the audited financials FY 2015-16 & FY2016-17 (Refer annexure 3), it has been observed that, profit before tax of Rs. 0.48 Cr & Rs.12.18 Cr respectively. These are mostly due to sales made to Empower India Limited (Sale of Rs. 100.42 Cr out of Rs.100.42 Cr in 2015-16 and Rs. 46.98 Cr out of Rs. 96.12 Cr in 2016-17). From summary of the payments and receipt in the bank statement, receipt from Empower India Limited are channelized immediately to Avance Technologies Ltd which is the major supplier of the Company (purchases of Rs. 99.57 Cr out of Rs. 100.39 Cr in 2015-16 and Rs. 46.45 Cr out of Rs. 90.24 Cr in 2016-17) which prima facie appears as a potential round tripping of funds.”

25.3 In response to the sales transaction relating to Empower India Limited, Noticee no.1 mainly submitted as follows:

“As regards observation on Page 38 at Para 4(i) of FAR that "neither of the invoices was having supporting attached to it such as delivery challan, sales order, transport charges etc.", we submit that sales were recorded in the books of accounts and the funds were received/ paid through normal banking channels for which complete audit trail is available, hence, no adverse inference ought to be drawn against me for the above.

As regards further observation that Rs 0.96 crore receivable from Empower India Limited was adjusted against payable, namely Avance Technologies Limited on the basis of confirmation copy which was not acknowledged & ledger copy of Avance also did not contain any narration, we submit that this was adjusted on the basis of oral confirmation received from the parties in the ordinary course of business, hence, no adverse information ought to be drawn against us for the same. Further, the narration is only written at the time

when the journal entry is passed and might/ might not get reflected in ledger, hence, the observation is against the procedure of accounting followed across the companies and Forensic Auditor ("FA") must be aware of the same. The FA has only tried to create an observation and show us as non-compliant without appreciating the procedure followed, without making any serious allegation and to fill in the pages to make the report thicker, however, same is without any substance. A copy of the confirmation acknowledged by Avance for the FY 2015-16 is annexed hereto at Annexure 6.

.....

As regards further observation that receipt of sale of material is identical as amount paid for purchase, we submit that same is due to coincidence and not by design, therefore no adverse inference ought to be drawn against us for the same.

.....

The transactions between Iris and Empower were bonafide transactions and in the ordinary course of business, therefore, no adverse inference ought to be drawn against us for the same.

A table has been prepared on the basis of bank statements which reveal that we have received Rs 79.75 crore from Empower and paid Rs 0.50 crore to Secure Mercantile Limited and on this basis alone it has been alleged that part of sales made to Empower was part of round tripping transactions without explaining any rationale for the same.

.....

The sales made to Emporis are backed by invoices and the same were provided to FA when they visited our office. A copy of few of the invoices of FY 2015-16 to FY 2017-18 for sales made to Emporis are annexed hereto at Annexure 8 for your reference. Hence, no nexus is available between the sales made to Emporis and allegation of round tripping and bald, sweeping, baseless allegations have been made which are contrary to factual position on record.

It is noted that Noticee no.1 has inadvertently mentioned Empower India Limited as Emporis in its reply above.

25.4 In response to the sales transaction relating to Milap Trading Private Limited, Noticee no.1 mainly submitted as follows:

“i) The transactions were carried out bonafide and in the ordinary course of business, recorded in the books of accounts and carried out through normal banking channels for which complete audit trail is available. Hence, no adverse inference ought to be drawn against us for the above.

ii) No violation of any specific provision has been alleged on the basis of above and this also establishes that the SCN is not specific and is based on surmises and conjectures. The adverse inference drawn is totally erroneous, unjustified and unwarranted.”

25.5 It is noted that the entire sales of Rs. 100.41 crores reported for F.Y 2015-16 by Iris was made to single customer Empower India Limited. Moreover, sales of Rs. 46.98 crores reported for FY 2016-17 by Iris was made to Empower India Limited. As regards the sales transactions, the Forensic Auditor did not take into account the invoices provided by Iris as they are not accompanied by delivery challan, sales order and transport charges. Moreover, FAR also observes that amount of Rs.0.96 crores receivable from Empower India Limited is adjusted against amount payable to Avance technologies Limited (“**Avance**”), as per copy of confirmation of accounts provided by the Company as on 31.03.2016. As per the FAR, the copy of confirmation of accounts provided by Iris is without any acknowledgement and the Company did not provide the ledger copies of Empower India Ltd even though specific request was made by Forensic Auditor for the same vide email dated 30th April 2018. In response to the SCN, Noticee no.1 has for the first time provided acknowledged copy of ledger account of Avance technologies Limited in the books of Iris. It is noted from confirmation of accounts of Avance submitted by Iris during the forensic audit and the ledger account of Avance submitted by Iris in response to the SCN, that the amount reflected as receivable from Empower India Limited and adjusted against payable to Avance is 95.68 crores and not 0.96 crore. Moreover, Noticee no.1 has submitted that this adjustment was done based on oral confirmations, however, I find that he has not provided any document in support of his claim of inter-se adjustments between receivables and payables. Therefore, the claim that receivable from Empower India Limited was adjusted with the payable to Avance is not borne out by the facts. Further with regard to sales of 100.41 crores reported for FY 2015-16 and sales of 46.98 crores reported for FY 2016-17 to Empower India Limited, I find that Noticee no.1 has merely provided sample copies of invoices and failed to prove these sale transactions with any documentary

evidence like VAT returns/VAT challans, delivery challan, proof of transport, sales order memo/ contract copy etc. Therefore, the contention made by Noticee no.1 are bald assertions and observation made in the FAR is correct.

25.6 As per FAR, the Company made payment of Rs 26.24 lakhs and 39.25 lakhs to customer i.e. Empower India Limited during FY 2015-16 and FY 2016-17, respectively. Iris has not provided any explanation, either to the Forensic Auditor or in reply to the SCN, for the said payment made to its customer. Thus, these transactions create further suspicion on the genuineness of the sales of Rs 100.14 crores as reported in the FY 2015-16 by Iris. Further, I have also noted the transactions in the IDBI bank A/c no. 0452102000011015 of Iris during FY 2015-16 and 2016 -17 as mentioned in the FAR. These bank transactions display various instances where the bank receipt from the claimed sale of material to Empower India Ltd is identical as amount paid for claimed purchases to Avance Technologies Ltd. In this regard, the Noticee No.1 has stated that the same is due to coincidence. As per the FAR, the profits are mostly due to sales made to Empower India Limited (Sale of Rs. 100.42 Crores out of Rs.100.42 Crores in 2015-16 and Rs. 46.98 Crores out of Rs. 96.12 Crores in 2016-17), however, Iris has not produced any documents in support of these claimed sale and purchase transactions such as VAT returns/VAT challans, delivery challan, proof of transport, sales order memo/ contract copy etc. These transfers are just to show the business activities with these two entities without underlying sale and purchase transactions. Therefore, I find that the observation in the FAR in this regard is correct.

25.7 As regards, the sales transaction with Milap Trading Private Limited, it is noted from the FAR that Iris made sales of Rs. 43.09 crores to Milap Trading Private Limited during October 01, 2016 to March 31, 2017. As per the FAR, vide email dated March 27, 2018 and April 30, 2018, the Forensic Auditor requested the Company to provide the ledger copy and balance confirmation as on March 31, 2017 for verification. However, I find that Noticee no.1 failed to produce the requested documents before the Forensic Auditor. I also note that the Company has failed to provide any supporting documents with respect to its sales to Milap Trading Private Limited such as VAT returns/VAT challans, delivery challan, proof of transport, sales order memo/ contract copy etc. even before me in the present proceedings.

Therefore, the sales to the extent of 43.09 crores appearing in the financial statements as on March 31, 2017 purportedly made to Milap Trading Private Limited is not borne out of the material provided.

25.8 In view of the above, in the absence of any supporting documents the transactions of sales with Empower India Limited and Milap Trading Private Limited are misrepresented, and accordingly, the revenue as shown in the profit and loss statement in the financial statements of FY 2015-16 and FY 2016-17 of Iris is also misrepresented. Thus, I agree with the observations made in FAR regarding these transactions.

26. Violation of LODR on account of non-disclosure and incorrect disclosure of related party transactions.

26.1 The SCN alleges non- disclosure and incorrect disclosure of facts and figures in the financial statements with regard to related party transactions. It is observed that the said allegation in SCN is based on the following observation in the FAR:

“On verification of financial for the year ended 31.3.2016 and 31.3.2017 we observe as under:

1.1 Profin Capital Services Limited (Profin) is not disclosed as related party in audited financials FY 2015-16 & FY 2016-17:

As per trial balance for FY 2015-16 & FY 2016-17 (**Refer Annexure 8 & 9**), it is observed that following transaction company had with Profin:

(Rs. in crores)

Particulars	Open. Bal as on 01-04- 2015	Debit	Credit	Closing Bal as on 31-03-2017
Trade Advance Paid	0.07	3.75	0.02	3.80

Mrs Neha Gupta is a director as per annual report of IRIS Mediaworks Limited for FY 2016-17 (Refer page no. 43) and she is also key managerial personnel of Profin Capital Services Limited as per annual report of FY 2016-17 (Refer page no.41).

Mr. Anupam Gupta, spouse of Neha Gupta is key managerial personnel in M/s. Profin Capital Services Limited and also holding 8.47 % of shares in the said company as per annual report for the FY 2016-17 (Refer page no.32). Further, he had also purchased equity shares of IRIS Mediaworks Limited during the Financial Year 2016-17 and is holding 2.55 % of share capital of IRIS Mediaworks Limited as on 31.03.2017 (Refer annual report FY 2016-17 – Annexure 3).

.....Mrs. Neha Gupta is director in Iris Mediaworks Limited and is also Director and Key Managerial Personnel of Profin Capital Services Limited and his spouse i.e. Mr. Anupam Gupta is holding 8.47 % shares in Profit Capital Service Limited and 2.55 % shares in Iris Mediaworks Limited and accordingly in our opinion are related party and as such the same has been termed as Group Company.

It may also to be noted that IRIS Mediaworks Limited is engaged in trading of IT related business as per Annual Report of FY 2015-16 & FY 2016-17 whereas Profin Capital Services Limited is exclusive dealing in shares as per its last 3 years of financials (FY 2015 to 18). Thus, prima facie it seems that advance might have been given for purchase of shares, which have not received by Iris Mediaworks Limited till 31.03.2017. Further, no agreement and balance confirmation has been shared with us which sought vide email dated 27th March 2018 (Refer annexure 32) and these characteristics generally found in related party transaction.

Further, it is to be noted that Sandesh Madhukar Sawant and Allan Cyprian Rebello who are the directors in IRIS Mediaworks Limited are also the shareholders in Pro fin Capital Services Limited (Refer annexure 5 – page no.19).

As per sec 184 of the companies Act 2013 and with Rule 9 of companies Rules, 2014 every director of the company has to disclose his interest by giving a notice in writing in form MBP-1 if his holding is more than 2% of paid-up share capital of other company. However, no such disclosure were made by company in its annual report FY 2016-17 (Refer annexure 3). Details of shareholding as per audited financial statement as at 31st March 2017 of Pro Fin Capital Services limited (refer annexure 5 – page no.19).

Sr. No.	Shareholders	% of holding	Director since in IRIS
1	Sandesh Madhukar Sawant	18.11	30.09.2014 to 26.08.2016
2	Allan Cyprian Rebello	4.53	30.09.2014

1.2 Incorrect disclosure of trade advances paid to related party:

Related Party transactions for the year ended 31st March 2016 & 31st March 2017 **as per trial balance** as reflected below **(Refer Annexure 8 & 9):**

Name of Party	Type of Transaction	Transactions as per Trial Balance as on 31.3.2016	Transaction as per trial balance as on 31.03.2017
Gee Info Media Pvt Ltd (Gee)	Trade Advances	Rs. 31.13 lacs.	NIL

However as per the **disclosure made for transactions with related party as per audited financials** for the FY 2015-16 (Refer Annexure 3) shown as under:

Name of Party	Nature of Relationship	As on 31.3.2016	As on 31.03.2015
Gee Info Media Pvt Ltd (Gee)	Rajendra Karnik (Director)	Rs. 36.78 lacs.	RS. 67.92 lacs.

And as per the **disclosure made for transactions with related party as per audited financials** for the FY 2016-17 (Refer Annexure 3) shown as under:

Name of Party	Nature of Relationship	As on 31.3.2017	As 31.03.2016
Gee Info Media Pvt Ltd (Gee)	Rajendra Karnik (Director)	NIL	RS. 67.92 lacs

Hence from the above details, it is evident that incorrect related party disclosures made in financials for FY 2016-17 which leads to misrepresentation of financial statements by the Company.

Analysis of Related Party transaction

Disclosure of related party is wrongly represented in financials as compare to trial balance.

The transactions entered with related party need to disclose in financial statements as per disclosure of accounting standard 18. However, the transactions entered with Gee Info Media Pvt Ltd is incorrectly disclosed in audited financials FY 2016-17.

For detailed observation, kindly refer para PART II – point no 1.2.

No disclosure for director remuneration in related party transactions:

As per accounting standard 18 – ‘Related Party disclosures’ issued by the ICAI - Key management personnel including their relatives are the related party and disclosure of same

is mandatory to companies which are listed or in process of listed. However, the Company has not complied with this accounting standard and it is observed that director remuneration is expense out amounting to RS. 6 lacs to Rajendra karnik – Managing director (from October 16 to March 17) **Refer Annexure 23.**

No disclosure of interest of director is made in related party transactions:

Company has violated section 185 of Companies act 2013. As read in the section “no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person”. However, the Company has not complied with the section and has given loans and advances to parties where the director has interest. Further, the violation of this should have been reported in the Independent Auditors Report as per the Companies (Auditor’s Report) Order, 2016. However, it is observed that same has not been reported by the auditor in the Independent Auditors report in FY 2016-17. Rather the Annexure A of Independent Audit Report of the Company says, “the Company has complied with the provisions of section 185 and 186 of the companies Act 2013 in respect of loans, investments, guarantees and security.” in financial years 2016-17.

Following are the transaction details as per trial balance as on 31st March 2017(**Refer Annexure 9- page no.6**):

(Rs. in Crores)

Particular	Nature	Open. Bal.	Debit	Credit	Closing Bal.
Pro fin capital services limited	Trade advance paid	0.07	3.75	0.02	3.80

Following are relationship observed between IRIS and Pro Fin and no disclosure made for the same:

Particulars	Relation in IRIS	Relation in Pro fin (Refer Annexure 5 – Annual Report of Pro fin)	% of shareholding
Neha Gupta	Director	Director	-
Sandesh Madhukar Sawant	Director	Shareholder	18.11%
Allan Cyprian Rebello	Director	Shareholder	4.5%

26.2 In response to the aforesaid allegations, Noticee no.1 mainly submitted as follows:

Mr. Anupam Gupta ("AG") and Mrs Neha Gupta ("NG") are two separate individuals and they do not interfere in professional life of each other. There is a Chinese wall between professional life and personal life of both the individuals. The professional secrets are not divulged to each other and same are not discussed even in informal discussions among themselves. The professional matters are discussed among themselves only on 'need to know' basis and not otherwise.

.....

As regards Para 1.2 on Page 51 of FAR with respect to incorrect disclosure of trade advances paid to related party, we submit that trial balance is only an internal document of the Company which is the starting point to prepare financial statements, hence, the two documents are not comparable. It is completely erroneous on part of the FA to compare the two documents which cannot be compared by iota of chance. The audited balance sheet is the final financial statements prepared by us and audited by a Chartered Accountant and to compare the same with Trial Balance is highly arbitrary, illogical and baseless.

.....

As regards Para 6.2 of Part II on Page 59 of FAR, we submit that the observation is quite vague, sweeping, bald and unsubstantiated. The observation is not able to convey any meaning. We submit that the remuneration was paid to Mr Rajendra Kamik through normal banking channels for which complete audit trail is available. The same was accounted for in the books of accounts and have been completely disclosed in the financial statements. A copy of the shareholding pattern of promoters as available on website of stock exchange is annexed hereto at **Annexure 14**. This reveals that the promoters are only holding 1.84% of total paid up capital. We, therefore, submit that the details have been completely disclosed and there is no non-disclosure on part of Iris to warrant any violation. In view of the same we deny that we have not complied with Accounting Standard 18-Related Party Disclosures.

As regards Para 6.3 of Part II on Page 60 of FAR, we submit that Section 185 of the Companies Act, 2013, as it stood prior to amendment in 2018, is reproduced hereunder:-

"Save as otherwise provided in this Act, no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested

or give any guarantee or provide any security in connection with any loan taken by him or such other person:

Provided that nothing contained in this sub-section shall apply to- (a) the giving of any loan to a managing or whole-time director-

(i) as a part of the conditions of service extended by the company to all its employees; or

(ii) pursuant to any scheme approved by the members by a special resolution;

or

(b)

It is SEBI's own case that we have paid trade advance to Profin which is in the ordinary course of business and no loan, guarantee etc. has been given to warrant any violation of any provision of Section 185 of The Companies Act. In view of the above, we deny that we have violated Section 185 of The Companies Act, 2013.

26.3 It is noted from the Annual Report for FY 2015-16 that Mrs. Neha Gupta is a director in Iris and is also Director and Key Managerial Personnel of Pro Fin Capital Services Limited in 2016-17. As per the observation in FAR, Neha Gupta's spouse i.e. Mr. Anupam Gupta is holding 8.47 % shares in Pro Fin Capital Service Limited and 2.55 % shares in Iris. As per section 2(76) (v) of Companies Act, 2013, a public company in which a director and manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital is a related party. Thus, I find that Pro Fin Capital Services Limited is a related party of Iris in terms of Section 2(76)(iv) of Companies Act, 2013 read with Regulation 2(1)(zb) of LODR Regulations.

26.4 On perusal of FAR, I find that Iris has provided trade advances to Pro Fin Capital Services Limited and received certain funds from the said company during 2016-17. The details of the transactions are as follows;

(Rs. In Crores)

Particular	Nature	Open. Bal.	Debit	Credit	Closing Bal.
Pro Fin capital	Trade advance paid	0.07	3.75	0.02	3.80

services limited					
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- 26.5 With respect to the aforesaid related party transactions between Pro Fin Capital Services Limited and Iris, I note that Iris was required to disclose the aforesaid related party transaction in the Board's Report in Form AOC-2 in accordance with Section 134(3)(h) of Companies Act, 2013 read with Rule 8(2) of Companies (Accounts) Rules, 2014. However, from the Annual Report of FY 2016-17, I find that no such disclosure has been made by Iris in the Board's Report/ Director's Report section of the Annual Report of Iris for FY 2016-17, which is in violation of Regulation 4(1)(g) of LODR Regulations.
- 26.6 I also note that, in accordance with AS 18 and Ind AS 24, Iris was required to disclose the aforesaid related party transactions in the 'notes to accounts' section of the Annual Report for FY 2017-18. However, I find that no such disclosure has been made by Iris.
- 26.7 With respect to the trade advance paid by Iris to Pro Fin Capital Services Limited, the FAR also observes that the said trade advance is paid in violation of Section 185 of Companies Act, 2013. The relevant extract of the Section 185 as applicable in FY 2016-17 prior to its amendment in 2018 is give below:

185. Loan to directors, etc.— (1) Save as otherwise provided in this Act, no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person:

.....
Explanation.—For the purposes of this section, the expression —to any other person in whom director is interestedll means—

- (a) any director of the lending company, or of a company which is its holding company or any partner or relative of any such director;
- (b) any firm in which any such director or relative is a partner;
- (c) any private company of which any such director is a director or member;

(d) any body corporate at a general meeting of which not less than twenty-five per cent of the total voting power may be exercised or controlled by any such director, or by two or more such directors, together; or

(e) any body corporate, the Board of directors, managing director or manager, whereof is accustomed to act in accordance with the directions or instructions of the Board, or of any director or directors, of the lending company

26.8 On perusal of the above provision, I find that Pro Fin Capital Services Limited does not fall in any of the clauses of Section 185. Thus, the observation in the FAR that trade advance was paid to Pro Fin Capital Services Limited by Iris in violation of Section 185 of the Companies Act, 2013 is not correct.

26.9 With respect to the disclosure of director remuneration, the FAR observes that the Company has not complied with the AS 18 which provides for disclosure of related party transactions. It is noted that AS 18 paragraph 20 provides as follows:

Disclosure

20. The statutes governing an enterprise often require disclosure in financial statements of transactions with certain categories of related parties. In particular, attention is focussed on transactions with the directors or similar key management personnel of an enterprise, especially their remuneration and borrowings, because of the fiduciary nature of their relationship with the enterprise.

26.10 The FAR observes that the remuneration with respect to Noticee no. 2 who is the Managing Director of the Company is not disclosed for FY 2016-17 under related party transactions. It is noted that Noticee no.1 in response to the said allegation has submitted that the promoters of Iris, Noticee no. 2 Rajendra Karnik and Vaishali Karnik hold only 1.84% of shareholding of Iris and accordingly no violation of AS 18 –related party transactions can be alleged. I note that AS 18 provides that transactions with directors or similar key managerial persons of enterprise, especially their remuneration is required to be disclosed. Mr. Rajendra Karnik (Noticee no. 2) was the Managing Director of Iris during 2016-17. I note that the remuneration of Noticee no. 2 has been disclosed in the Annual Report of FY 2016-17. However, the remuneration of Noticee no. 2 is not disclosed in the financials statement of the Company as required under AS 18 and thus, I find that the observation in the FAR in this regard is correct.

- 26.11 As regards transactions with Gee Info Media Pvt Ltd (hereinafter referred to as “Gee”), it is noted that Gee is a related party in terms of Section 2(76) of Companies Act, 2013 due to common directorship of Noticee no. 2 in Iris and Gee. It is noted that transactions with Gee are disclosed in the ‘notes to accounts’ section of the Annual Report for FY 2017-18 in accordance with AS 18 and Ind AS 24. The FAR compares the details of transaction for the year ended March 31, 2016 and March 31, 2017 as per the trial balance with the disclosure of transactions as per audited financials for the FY 2015-16 and 2016-17. Iris has submitted that the trial balance is only any internal document of the Company which is the starting point to prepare financial statements, hence, the two documents are not comparable. I agree with the contention of the Noticee no. 1 as the audited financial statements could differ from the trial balance of the Company and the difference between the two itself cannot be treated as misrepresentation of financial statements.
- 26.12 However, I note that as per audited financial statements of Iris for 2015-16 the transactions with Gee as on March 31, 2016 is of Rs 67.92 lacs whereas as per audited financial statements for 2016-17 the transactions with Gee as on March 31, 2016 is of and 36.78 lacs. The said discrepancy in the financial statements may amount to misrepresentation of financials by Iris.
- 26.13 Regarding the violations pertaining to non-disclosure of director holding in Pro fin Capital Services Limited in the Annual Report, it is noted that as per the FAR, Noticee no. 3 and Noticee No. 7 are directors of Iris and also hold 18.11% and 4.5% shares in Pro fin Capital Services Limited, respectively. As per Section 184 of the Companies Act, 2013 read with Rule 9 of the Companies (Meetings of Board and its Powers) Rules, 2014, the shareholding of the directors is required to be disclosed by the director at the first meeting of the Board in which he participates. FAR observes that the Company has not made any such disclosure in the annual report of F.Y 2016-17. It is noted that as per Section 184 of the Companies Act, 2013 read with Rule 9 of the Companies (Meetings of Board and its Powers) Rules, 2014, the shareholding of the directors is required to be disclosed in Form MBP 1 at the first Board meeting. The said provisions do not require disclosure of the shareholding of

the directors in the Annual Report. Thus, I find that no adverse inference can be drawn from the observation of the FAR in this regard.

27. Misrepresentation in financials relating to of trade payables and trade receivables.

27.1 The SCN alleges that there are negligible changes in trade payables / receivables of Iris.

27.2 This allegation is based on the following observation in the FAR:

“Details of Trade and advances as on March 31, 2016 as per financial statement for FY 2015-16 and details provided by the Company (Refer annexure 3, 8 & 9)

Sr. No.	Particulars	Rs. in Crores
1	Trade Payable	17.27
2	Trade receivable	5.43

1) Breakup of trade payable as on 31st March 2016 as provided by the Company (Refer Annexure 12):

Particulars	Rs. in Crores
Trade payable	
Allied Computers International (Asia) Ltd (Allied)	0.99
Ascent Web Solutions Pvt Ltd (Ascent)	0.66
Avance Technologies Ltd (Avance)	6.40
Trade Advance received	
Ayog infrastructure Pvt. Ltd.	0.03
Ankit Silk Pvt Ltd,	1.38
Bhagvati Investment	0.10
Parikh Multi Trade	0.05
Pavitra Mall Management Co. Pvt Ltd	0.01
Radford Real Estate Pvt Ltd	0.05
R R Corporation Limited	3.84
Unsecured loan	

Particulars	Rs. in Crores
Ailish Traders Pvt Ltd	3.51
Ashok Kumar	0.19
Jash Ajmera	0.00 (Rs.25000)
Jesal M Ajmera	0.00 (Rs.33000)
Nishita A Ajmera	0.01
Sanmay Trading Pvt Ltd	0.01
Shaji Art	0.05
Total	17.27

From the above table, trade payable is Rs. 17.27 crores from which Rs. 9.22 crores is trade advance received & unsecured loan which represent not in accordance with financial statement presentation stated in schedule 3 of companies act and for detail comment refer para Part II, Point no. 1.4. In absence of any documents (such as agreement/contract copy, balance confirmation copy) cannot identify the linkage/purpose of such advances into IT trading business. Further, the balance confirmation copy provided by the Company are without any acknowledgement (Refer annexure 38).

Further, no change in Outstanding trade payable as per details of trade payable as on 31.03.2015 & 31.03.2016 and balance confirmation copies for FY 2014-15 & FY 2015-16 provided by company (Refer annexure 38).

.....
it is observed that in major trade payables, directors of trade payable are having directorship in other companies with whom company has financial transaction. Also, the copy of balance confirmation of parties provided by company are without acknowledged. Further, it is observed that no change in major trade payable from last 2 years and no purchase made from them as per purchase register FY 2015-16 (Refer annexure 29). And no explanation /information w.r.t legal action taken/against company except pending cases before income tax details provided by company refer vide email dated 27th March 2018 (Refer annexure 32). Hence, altogether it indicates that high risk involved and the transaction taken place are not ordinary course of business."

Breakup of Trade receivable as on 31st March 2016 as per details provided by the Company (Refer Annexure 13) :

Particulars	Rs. in Crores
TRADE RECEIVABLE MORE THAN SIX MONTHS	

Adamina Traders Pvt Ltd	0.48
C & K Realators	0.46
Indivar Traders Pvt Ltd	0.20
Mobile Telecommunication Ltd	3.42
TRADE RECEIVABLE LESS THAN SIX MONTHS	
Mobile Telecommunication Ltd	0.86
Total	5.43

- No agreement/contracts copy of trade receivable from above parties provided to us and hence nature of transaction company has entered into with this party cannot be verified.
- Also balance confirmation provided by the Company is without acknowledgment of parties which cannot be relied for balances as on 31st March 2016 (Refer annexure 26).
- Further, it is observed that receivable outstanding for less than six months from Mobile Telecommunication Limited of Rs.0.86 crores was adjusted against purchase made by company of same amount in FY 2016-17 dated 31.03.2017 as per purchase register. For detail refer part I point no.4 (ii). It is pertinent to note that no sales made by company to Mobile Telecommunication Limited in FY 2014-15 & FY 2015-16 as per ledger copy of Mobile Telecommunication Limited for FY 2014-15 & FY 2015-16 (Refer annexure 40).
- There is no change in outstanding balances of trade receivable namely Adamina traders Pvt Ltd, C & K Realators and Indivar Traders Pvt Ltd from FY 2014-15 to FY 2015-16 as per ledger copies provided by company (refer annexure 41).
- No information/explanation given w.r.t legal action taken by the Company for such recovery as per information sought vide email dated 27th March 2018 (refer annexure 32).
- No ledger copy provided by company w.r.t Empower India Limited to whom the major sales made by company in FY 2015-16 refer sought vide email dated 30th April 2018 (refer annexure 37). Hence for detail comment refer para 5, Part I-point no.4.

Thus, altogether it indicates misuse of funds by the Company which is detrimental to the interest of the minority of shareholders of the Company.”

27.3 In response to the above allegations relating to trade payables Noticee no.1 mainly submitted as follows:

“

The Forensic auditor and SEB being an expert in the field of accountancy has failed to appreciate failed to appreciate that there is no embargo in law prohibiting dealing with different companies having same directors.

The transactions were carried out bonafide, in the ordinary course of business, have been recorded in the books of accounts, the funds have been received/ paid through normal banking channels for which complete audit trail is available, hence, no adverse inference ought to be drawn against us for the above.

.....

As regards observation of FAR that balance confirmations have not been acknowledged, a copy of the ledger/ balance confirmations duly acknowledged by the counter party for various financial years of Allied Computers, Avance, Ayog, Pavitra Mall Management, Radford and Sanmay Trading Pvt. Ltd. are collectively annexed hereto at Annexure 10.

.....”

27.4 In response to the above allegations relating to trade receivables Noticee no.1 stated as follows:

“As regards observation at Para 5c (2) regarding Adamina that there is no change in outstanding balance of trade receivable from FY 2014-15 and FY 2015-16, we submit that this is factually incorrect and it appears that FA has not gone through the records provided to them before giving any adverse observation. The FA has not appreciated that due to our persistent efforts, we were able to recover the funds from Adamina in the FY 2016-17. Despite giving them all the records, the FA has chosen to ignore the same and has given illegal and perverse observation. A copy of the ledger in our books and confirmed by Adamina for the FY 2016-17 is annexed hereto at Annexure 11 which reveals that out of Rs 48.75 lakh receivable we have recovered an amount of Rs 48.50 lakh. Hence, the observation that there is no change in outstanding balance of trade receivable cannot be sustained and is totally misplaced and erroneous.

As regards observation at Para 5c (2) regarding C & K Realtors (hereinafter referred to as "CKR") that there is no change in outstanding balance of trade receivable from FY 2014-15 and FY 2015-16, we submit that this is factually incorrect and it appears that FA has not gone through the records provided to them before giving any adverse observation. A copy of the ledger of CKR Realtors annexed hereto at Annexure 11 (annexed at Annexure 41 of FAR) for the FY 2014-15 clearly reveals that we have

received a sum of Rs. 24 lakh in the said FY and the amount receivable has reduced from Rs 70.30 lakh to 46.30 lakh. This establishes that the observation is contrary to factual position on record and is unsustainable. A copy of the ledger of CKR duly confirmed and countersigned by CKR is annexed hereto at Annexure 12. This establishes that despite giving them all the records, the FA has chosen to ignore the same and has given illegal and perverse observation. Hence, the observation that there is no change in outstanding balance of trade receivable cannot be sustained and is totally misplaced and erroneous.

As regards observation at Para 5(c) (2) regarding Indivar Traders Pvt. Ltd. (hereinafter referred to as "Indivar") that there is no change in outstanding balance of trade receivable from FY 2014-15 and FY 2015-16, we submit that we have been making regular efforts to recover the funds, however, we are not successful. However, to observe that there is no change in balance and therefore misuse of funds is totally misplaced and erroneous. The observation has been drawn on the basis of perceived notions and not on the basis of irrefutable evidence. This establishes that despite giving them all the records, the FA has chosen to ignore the same and has given illegal and perverse observation. Hence, the observation that there is no change in outstanding balance of trade receivable cannot be sustained and is totally misplaced and erroneous."

- 27.5 As regards, the observations in the FAR relating to outstanding trade payable by Iris as referred to in para 27.2, I note that the Company has not provided any reliable document proving that the funds received from various companies and shown as trade payables in financial statements of the Company were intended to be used for the business objective as stated in the Memorandum of Association of the Company i.e. IT related products. As per the FAR, the Company provided the copy of balance confirmation by various parties to the forensic auditor without any acknowledgment. In response to the SCN, the Company provided the acknowledged copy of the confirmation of accounts by various parties for the first time in these proceedings. I note that the acknowledgment funds credited in the books of account of Iris by various parties does not prove that the funds were received by Iris in the ordinary course of business. Moreover, the Company has not provided any explanation during the forensic audit or in the current proceedings as to why there has been no major change in the trade payables in F.Y 2015-16 and F.Y 2016-17. It is noted that the Company has not provided any supporting documents such as purchase invoice copy, order copy, delivery challan, goods receipt note or any other document for proving that the trade payables were used

for purchase of goods for the Company. It is also noted that no legal action has been taken against the Company by the creditors for the long outstanding trade payables. The Noticee No.1 has made bald statements that transactions were carried out bonafide and in ordinary course of business without providing any supporting documents. Therefore, I am inclined to agree with the observation in FAR that there is no change in major trade payable for FY 2015-16 and 2016-17 and that the funds were not provided to Iris in the ordinary course of business of the Company. Thus, I find that the trade payables of Rs 17.27 crores in the financial statements for the F.Y 2015-16 have been misrepresented.

27.6 As regards, the observation in FAR that in major trade payables, directors of companies to which these trade payable are owed having directorship in other companies with whom the Company has financial transactions, Noticee No.1 has submitted that there is no embargo in law prohibiting dealing with different companies having same directors. It is noted that no observation is made in the FAR as to how the common directorship of companies that provided trade advances with the companies having financial transactions with Iris would indicate misrepresentation of financial statements or misuse of funds by Iris. Further, in absence of any finding in the FAR that these transactions were related party transactions that require approval of the audit committee of Iris, I find that no adverse inference can be drawn against the Noticee No.1 based on these observations in the FAR.

27.7 As regards the observations in the FAR relating to trade receivables of the Company, it is noted that Iris has not provided any agreement/contracts specifying the terms of funds provided to Adamina Traders Pvt Ltd (hereinafter referred to as "Adamina"), C & K Realators (hereinafter referred to as "CKR"), Indivar Traders Pvt. Ltd. (hereinafter referred to as "Indivar") and Mobile (hereinafter collectively referred to as "trade receivable companies") during the Forensic Audit or in the current proceedings. During Forensic Audit, Iris provided unacknowledged copies of balance confirmation provided by the companies from which there were trade receivables. In response to the observation in the FAR that there is no change in the outstanding balance of trade receivable from FY 2014-15 and FY 2015-16, the Company has for the first time provided the ledger of Adamina for F.Y 2016-17 to

prove that out of Rs 48.75 lakhs receivable the Company has recovered an amount of Rs 48.50 lakhs. These ledger entries do not prove receipt of such amounts from Adamina in the account of Iris. Further, Iris has not provided corresponding bank statements to prove the receipt of these amounts from Adamina or proof of underlying transactions under which receivables were received by Iris. In these circumstances, I find that the contention of Iris that it has received 48.50 lakhs from Adamina is not tenable.

- 27.8 In relation to CKR, Noticee No.1 in its reply to the SCN has pointed out that as per the copy of CKR's ledger for the FY 2014-15 provided to the forensic auditor, a sum of Rs. 24 lakh is received by Iris in the said FY and the amount receivable has reduced from Rs 70.30 lakh to 46.30 lakh. It is noted that Iris had provided copy of confirmation of accounts to the Forensic Auditors which indicate that a sum of Rs. 24 lakh in FY 2014-15 was received by Iris from CKR. Further, in response to the SCN, Iris has for the first time submitted the copy of ledger account of CKR which also indicates that a sum of Rs. 24 lakhs in FY 2014-15 was received by Iris from CKR. These ledger entries do not prove receipt of such amounts from CKR in the account of Iris. Further, Iris has not provided corresponding bank statements to prove the receipt of these amounts from CKR or proof of underlying transactions under which receivables were received by Iris. In these circumstances, I find that the contention of Iris that it has received 24 lakhs from CKR is not tenable.
- 27.9 As regards the observation in FAR relating to no change in outstanding balance of trade receivables from Indivar during FY 2014-15 and FY 2015-16, I note that the Company has submitted that it has been making regular efforts to recover the funds, without providing any supporting evidence even in these proceedings. In absence of any proof of legal notice served or civil suit filed for recovery of money, I am inclined to agree with the observation of the FAR in this regard. In view of the above, I find that the observation in FAR that there is no change in the outstanding balances of trade receivables from Adamina, CKR and Indivar from F.Y 2014-15 to F.Y 2015-16 is correct.
- 27.10 As regards the observation in FAR relating to adjustment of trade receivable of Rs 0.86 crores outstanding for less than six months from Mobile against purchase

made by company of same amount in FY 2016-17 dated 31.03.2017, it is noted that the Noticee no. 1 has not provided any supporting documents for proving the purchase transactions with Mobile such as purchase agreement, delivery challan, good receipt note during the forensic audit or in the current proceedings. Thus, I am inclined to agree with observation in the FAR that the said transaction did not appear to be in ordinary course of business.

27.11 In view of the paras 27.5 to 27.10 above, I find that the trade payables/receivables crores in the financial statements for the F.Y 2015-16 have been misrepresented.

28. Misrepresentation in financials on account of improper grouping of assets/ liabilities in the financial statements.

28.1 The SCN alleges improper grouping of assets/ liabilities in the financial statements by the Company. It is observed that the said allegation in SCN is based on the following observation in the FAR:

“

b) Misrepresentation of Financial statement w.r.t trade payable in financial statements:

As per schedule III of companies Act 2013, Trade payables are generally classified as current liabilities, since they are usually payable within one year. If that is not the case, then such payables can be classified as long-term liabilities. And borrowing shall be classified under current liability as short-term borrowings if it is expected to be settled in the Company's normal operating cycle otherwise will come under non –current liability as long-term borrowings.

On the review of financials for the year ended 31st March 2016 & 31st March 2017 (**Refer Annexure 3**) and trial balance for the same period (**Refer Annexure 8 & 9**), it is observed that trade payable is classified under current liabilities is inclusive of trade advance received, unsecured loan, advances from debtors, trade advances paid and directors current account which is not in compliance with disclosure requirement as per the schedule III of Companies Act 2013. Following are the details as under:-

As per trial balance for FY 2015-16	Rs in Crores	As per financial (FY 2015-16)	Rs. in Crores

Sundry creditors	8.06	Trade Payable	17.28
Trade Advance received	5.51		
Unsecured loan	3.72		
Total	17.28	Total	17.28

As per trial balance for FY 2016-17	Rs in Crores	As per financial (FY 2016-17)	Rs. in Crores
Sundry creditors	-2.25	Trade Payable	17.10
Directors current a/c (diff as per TB & financial)	-0.03	-	-
Trade Advance received	2.92	-	-
Unsecured loan	3.72	-	-
Debtors (diff as per TB & financial)	-12.69	-	-
Loans & advances (diff as per TB & financial)	0.00	-	-
Trade advance paid (diff as per TB & financial)	-0.05	-	-
Total	17.10	Total	17.10

From the above observations it is evident that there were several instances of misrepresentation including financials and / or businesses and / or violation of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (hereinafter referred to as “LODR Regulations”).

28.2 The Noticee no. 1 in its reply to the SCN has denied that there was improper grouping of assets/ liabilities without providing any justification for including trade advance paid/received, unsecured loan, advances from debtors, and directors current account under current liabilities.

28.3 As per the FAR, the trade payables of Rs 17.28 crores and Rs 17.10 crores disclosed in the financial statements of FY 2015-16 and 2016-17, respectively are inclusive of trade advance paid/received, unsecured loans, advances from debtors, and directors current account. I note that as per the “General Instructions for Preparation Of Balance Sheet And Statement of Profit And Loss of A Company” provided under Schedule III of Companies Act, 2013, a payable shall be classified as a “trade payable” if it is in respect of the amount due on account of goods purchased or services received in the normal course of business. Further, in terms

of Schedule III of Companies Act, 2013, the trade payables include total outstanding dues from creditors. It is noted from the FAR that for FY 2015-2016, as per the trial balance of Iris, the trade payable includes sundry creditors and trade advance received which can be considered as outstanding dues from creditors. In view of the this, I am unable to agree with the observation of FAR regarding the trade payables for F.Y 2015-16. With respect to observation in FAR for FY 2016-17, it is noted that this observation is emanated in FAR as the different heads which have been made a part of trade payable of Iris in trial balance ought not to have been so incorporated. Before going in the merits of this allegation, I note that the sum attributed to the different heads under trade payable does not add upto 17.10 crores as mentioned in FAR. In view of this, it may not be advisable to draw adverse inference based on this observation in the FAR.

29. Misrepresentation in the financials on account of recording unusual transactions in the financial statements of the Company

29.1 The SCN alleges that Iris entered into unusual transactions wherein funds are received from creditor & payment is made to debtors. It is observed that the said allegation in SCN is based on the following observation in the FAR:

“Cash Flow analysis to trace source of funds and end use of funds on sample basis (as per the annual report of last two years)

Summary of cash & cash equivalents balance as on 31.03.2016 & 31.03.2017 as per annual report of FY 2016-17 and FY 2015-16 (Refer annexure 3) as enumerated below:-

(Rs. in crores)

Particulars	As on 31.03.2017	As on 31.03.2016	As on 31.03.2015
Cash on Hand	0.03	0.00 (Rs.48,858)	0.00 (Rs.20,182)
Balance with bank in current account	0.03	0.05	0.06
Cheques in hand	0.00	0.00	0.34
Total	0.06	0.05	0.40

3.1 Breakup of Bank as per copy of trial balance for FY 2015-16 and FY 2016-17 provided by company (refer annexure 8 & 9) as under:

(Rs. in crores)

Particulars	As on 31.03.2017	As on 31.03.2016	Ledger provided (Yes/No)	Bank Statement Provided (Yes/No)
Corporation Bank	0.01	0.00	Yes	Yes
Dena Bank	0.00 (Rs.24522)	0.00 Rs.24522)	Yes	No
Dhanlaxmi Bank	0.01	0.01	Yes	No
HDFC Bank	0.00 (Rs.41410)	0.00 (Rs.1189.41)	Yes	Yes
HSBC - preference share A/c	0.00 (Rs.349.58)	0.00 (Rs.349.58)	Yes	No
IDBI Bank	0.01	0.00 (Rs. 17104)	Yes	Yes
IndusInd Bank	0.01	0.01	Yes	No
ING Vysya Bank Ltd	0.01	0.01	Yes	No
Kotak Mahindra Bank	-0.00 (Rs.926)	-0.00 (Rs.926)	Yes	No
OBC	0.00 (Rs.3888)	0.00 (Rs.3888)	Yes	Yes
The Bharat Co-Operative Bank Ltd	0.00 (Rs.5070)	0.00 (Rs.5070)	Yes	No
Grand Total	0.05	0.03		

Following is movement of bank transaction observed based on the bank ledger copies for FY 2015-16 & FY 2016-17(refer annexure 16) provided by the Company.

(Rs. in Crores)

Particulars	FY 2015-16	FY 2016-17	Total
Opening Balance	0.06	0.05	0.11
Add:	-	-	-
Receipt from Debtor	132.39	1.53	133.92
Receipt from creditor	0.34	4.41	4.75
Trade advance received	0.03	1.53	1.56
Refund from trade advance paid	0.25	0.45	0.70
Loan taken from managing director	0.11	0.12	0.23
Other	0.27	0.37	0.63

(Cash deposited/refund of deposit/ receipt of loan given to promoter)			
Less:	-	-	-
Payment to creditor for goods	-106.34	-2.84	-109.18
Payment to Debtor	-26.24	-0.39	-26.63
Trade advance paid	-0.33	-4.25	-4.58
Repayment of loan taken MD	-0.07	-0.39	-0.46
Creditor for expenses	-0.18	-0.08	-0.26
Loan given to promoter	-0.09	-	-0.09
Others (Chq return charges/cash withdrawal/director remuneration/rent deposit paid/others)	-0.16	-0.48	-0.64
Closing Balance	-0.05	-0.03	-0.07

Conclusion:

From the above table, it is evident that the source of fund is mainly from receipt from debtors, creditors and trade advance received and utilized the same for making payment to creditors, debtors and trade advance paid. Further it is observed from the above table that company received the receipts from creditor and made payment to debtors which is not in the nature of ordinary course of business transactions.”

29.2 In response to the aforesaid allegation Noticee no.1 has submitted as follows:

As regards conclusion of Para 3 of Part II on Page 55 of FAR that company received the receipts from debtors, creditors & trade advances and made payment to creditors, debtors and trade advances paid which is not in the nature of ordinary course of business, we submit that the funds are received from debtors in the ordinary course of business and funds are paid to the creditors in the ordinary course of business and this kind of funds flow cycle is followed in all type of businesses. We submit that Forensic auditor is not aware of the functioning of business and is making the observations just for the sake of filing of report. Every business makes purchases and sells the product after adding the value and some percentage of profit to make it viable. The debtors make the payment to us and out of that retaining our profit we pay to the creditors. No adverse inference ought to be drawn against us due to above. In view of the same, we deny that the said transactions were not in the ordinary course of business.

29.3 As per the FAR, Iris received 4.75 crores from creditors and paid Rs 26.63 crores to the debtors during FY 2015-2016 and 2016-17. It is noted that Noticee no. 1 in its reply to the SCN has denied that there were any unusual transactions without

explaining as to why fund were received from creditors and paid to debtors. In absence of any explanation for the same, I am inclined to agree with the observation in the FAR that funds received from creditors and payments made to debtors were not in the nature of ordinary course of business transactions. In view of the same, it is noted that Iris has misrepresented creditors and debtors in its financial statements to the extent of Rs 4.75 crores and Rs 26.63 crores, respectively.

30. Misrepresentation in financials on account of improper disclosure of unquoted shares.

30.1 The SCN alleges that improper disclosure of unquoted investments and non-provisioning of permanent diminution in value of investments by Iris.

30.2 It is observed that the said allegation is based on the following observations in the FAR:

“Following are the details of Investment in unquoted shares as per audited financial and as per trial balance for the period under audit (Refer Annexure 3, 8 & 9):

(Rs. in Crores)			
Sr.No.	Particulars	FY 2016-17	FY 2015-16
1	KPR Chemicals Ltd	0.85	0.85
2	Parikh Bikes Pvt Ltd	0.02	0.02
3	Ramnath developers Pvt Ltd	1.15	1.15
4	Sarthak Creation Pvt Ltd	0.60	0.60
	Total	2.62	2.62

Company not provided any valuation report as on 31st March 2016 & 31st March 2017 for investment in unquoted shares for verification which sought vide email 27th March 2018 (refer annexure 32) hence cannot comment on the same.

Following analysis have made for the above companies:

KPR Chemicals Ltd:

K.P.R. Chemicals Limited (the Company) is a closely held public limited company incorporated in Andhra Pradesh with registrar of companies, Telangana, Hyderabad. The Company is engaged in manufacture and sale of manufacture Caustic Soda, Caustic Potash, and Hydro Chloric Acid (HCL) with cogeneration of power.

We have analyzed audited financial of M/s KPR Chemicals Limited (KPR) and noted below mentioned serious discrepancies, which prima facie indicates that high risk:

- On the review of financial of K P R Chemicals Limited for the year ended 31st March 2017 (**Refer Annexure 20**), it is observed that the Company is yet to implement the project and has no operations as on 31st March 2017 and reserve & surplus is nil since FY 2015-16.
- KPR received the funds through share application is mostly utilized in long term loans & advances and fixed assets.
- As per the information available in public domain (as per MCA Portal) it is observed that L N Polyester Ltd is common shareholder in K P R chemicals & IRIS Mediaworks limited. Following are the details of L N Polyester Ltd shareholding in both the companies:

Shareholders Name	Iris Mediaworks Limited	K.P.R. Chemicals Limited
L N Polyester Ltd	10.0038%	0.30%

- There is no change in Long term loan & advances, long term borrowings and short-term provision since FY 2015-16. Accordingly, it is seen that no interest is received on loan term & advances and no interest is paid on long term borrowing.
- No depreciation is charged on fixed assets as per company's act 2013.

Hence the amount invested by the Company in KPR Chemicals limited shows that these funds are merely routed for fund transfer purposes and also as the Company is closely held and shares are not traded in the open market. It is seen that company not earning any revenue from its operation since 01st April 2015 still company not made any provision in its books of RS. 0.85 crores which is violation as per accounting standard 13 and accordingly financials are misrepresented.

.....

Ramnath Developers Pvt Ltd

We have analyzed audited financial of M/s Ramnath Developers Pvt Ltd (Ramnath) for the year ended 31st March 2016 through MCA website (Refer Annexure 20) and observe as under:

1. There is significant decrease in revenue from operation from last year by RS. 0.78 crores.
2. Fixed asset consist of only intangible asset.
3. Statutory auditor has given qualified opinion on the unsecured loans taken from others amounted to RS. 5.44 crores & 78.22 crores for Loans and advances given to unrelated parties. In our opinion, this amount will be treated as deposits taken from various parties but management show as the Unsecured Loan and loans and advances for which no record presented to us. And the records maintained by Company in respect of fixed assets are not properly maintained to show full particulars (other than item-wise depreciation) including quantitative details and general location of Fixed Assets. And company has made default in repayment of loans or borrowing to a financial institution-(HUDCO Ltd Mumbai Rs. 244,487,690.00/- Company file a counter case on HUDCO case no 3/16 is pending before DRT-1 Mumbai.)
4. Networth of company is RS. 1.25 per shares for FY 2015-16 whereas the IRIS has made investment at RS. 287.50 per shares where the diminution is of a permanent in nature. Also, it is seen that company is not earning any revenue from its operation still company not made any provision in its books of Rs.1.15 crores on account of diminution in value of investment, which violates provisions of accounting standard 13. Accordingly, financials are misrepresented.

Sarthak Creation Pvt Ltd

We have analysed audited financial of M/s Sarthak Creation Pvt Ltd (Refer Annexure 20) and noted below mentioned serious discrepancies, which prima facie indicates that high risk:

1. Revenue has been significantly reduced from last year by RS. 0.53 crores.
2. Company is loss making company as its entire networth has been eroded as such the valuation of this investment may be taken as "NIL"

From the above factors it is seen that Sarthak not earning enough revenue from its operation still company not made any provision in its books of Rs.0.60 crores and accordingly financials are misrepresented.

Hence, it is observed that company has not made any provision in its books of Rs.2.6 crores on account of diminution in the value of investment, which violates provision of accounting standard 13. Accordingly, financials are misrepresented.”

30.3 In response to the aforesaid allegation, Noticee no. 1 has mainly submitted as follows:

As regards alleged violation of Accounting Standard 13 (AS 13) as stated in Para 10 of Part II on Page 72 of FAR, we submit that the management of Iris was of the view that there is no diminution in the value of investment since the said value is neither based on revenue, loss etc.. The value of investment is always judged by the future prospects of the company in terms of overall economic activities and not by any single factor. At present there are many examples of the big companies wherein the company is incurring losses, however, the value of investment of the shareholders always increases. E.g Uber- it is a loss making company since its inception, however, whenever the shares of the same exchange hands, the seller always sells it at profit only. In view of the same we deny that we have violated the provisions of Accounting Standard 13.

30.4 As per the observation in FAR, it is noted that even though KPR Chemical Limited, Ramnath Developers Pvt Ltd and Sarthak Creation Pvt Ltd were making no or substantially reduced revenues in comparison to previous years from their operations, the Company did not make any provision in its books on account of diminution in value of its investments in these companies. It is noted that AS 13 (Accounting of investments) para 32 provides as follows:

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

As per AS 13, it is mandatory to make provisions for diminution in the value of investments. Given that KPR Chemical Limited, Ramnath Developers Pvt Ltd and Sarthak Creation Pvt Ltd were making no or substantially reduced revenues, Iris should have made provisions for diminution in the value of investments in accordance with AS13. In this regard, Iris has contended that the value of investment is always judged by the future prospects of the Company in terms of overall economic activities and not by any single factor. I note that FAR is not referring to only one

factor and various factors relating to these companies such as no depreciation is charged on fixed assets, significant reduction in revenues, default in repayment of loans, no change in long term loan & advances and no operations reflected in the financials are mentioned. Iris has not contested any of these observations relating to KPR Chemical Limited, Ramnath Developers Pvt Ltd and Sarthak Creation Pvt Ltd in the FAR. Thus, I find that Noticee no.1 has overstated its investments and misrepresented the financial statements. By the aforesaid misrepresentation in the financial statements of the Company, Iris has failed to comply with the mandate contained in para 32 of AS 13.

31. Non-disclosure of material information.

31.1 SCN alleges violation of Clause B(2) of Part A of Schedule III read with Regulation 30 of LODR Regulations by Noticee no.1.

31.2 The said allegation in the SCN is based on the following observation in the FAR:

“5.3 Business Activity

As observed, the company is presently engaged in trading of IT related products. However, it is observed that the company is also involved in taking / giving loans and advances on a regular basis. As per the information provided to us, as against the Total Net Owned Funds (i.e. Share Capital + Reserve & Surplus) of Rs.130.66 Crores as on 31.12.2017, the level of loans and advances as on 31.12.2017 is Rs.70.68 Crores which shows that the funds have been utilized for activity other than the main object as mentioned above. The Objects of the company is specified in Memorandum of association. (Refer annexure 6 – page no.8 & 9).”

31.3 In response to the aforesaid allegation, Noticee no. 1 has submitted as follows:

“With regard to contravention of Regulation 30 of the SEBI LODR Regulations it is submitted that we deny that we have not made each and every disclosure of all events or information which, was material in the opinion of the board of directors. We submit that we have made disclosures regarding events specified in in Para A of Part A of Schedule III. We submit that we have made disclosures of the events specified in Para B

of Part A of Schedule III, based on application of the guidelines for materiality, as specified in sub-regulation(4).

We submit that we have followed the set of criteria for determining the materiality of the events/information under sub-regulation (4) of Regulation 30. We have never omitted the disclosure of an event or information, which is likely to result in discontinuity or alteration of event or information already available publicly. We have never omitted disclosure of an event or information which is likely to result in significant market reaction if the said omission came to light at a later date. We have declared all the event/information which is material in the opinion of our board of directors. We have always framed a policy for determination of materiality, based on criteria specified in this sub-regulation, duly approved by its board of directors, which is also disclosed on our website. We have followed all necessary procedures for the purpose of determining materiality of an event or information and for the purpose of making disclosures to stock exchange(s) under this regulation. We submit that we have made all the disclosures referred to in this regulation, making disclosures updating material developments on a regular basis, till such time the event is resolved/closed, with relevant explanations. We submit that we have disclosed on our website all such events or information which has been disclosed to stock exchange(s) under this regulation, and such disclosures have been hosted on our website for a minimum period of five years and thereafter as per the archival policy of the listed entity. We have disclosed all events or information with respect to subsidiaries which are material for the listed entity. We have always provided specific and adequate reply to all queries raised by stock exchange(s) with respect to any events or information: Provided that the stock exchange(s) shall disseminate information and clarification as soon as reasonably practicable. We have on our own initiative confirmed or denied any reported event or information to stock exchange(s). We have made disclosures of event/information which has not specifically been indicated in Para A or B of Part A of Schedule III, but which may have material effect on it.”

- 31.4 Clause B(2) of Part A of Schedule III read with Regulation 30 of LODR Regulations provides that change in the general character or nature of business brought about by arrangements for strategic, technical, manufacturing, or marketing tie-up, adoption of new lines of business or closure of operations of any unit/division should be disclosed upon application of the guidelines for materiality referred to in sub-regulation (4) of Regulation 30. As per the Memorandum of Association, the Company is engaged in trading of IT related products. It is noted that FAR observes that funds of the Company have been utilized for activity other than the main object mentioned in the Memorandum of Association of the Company. The FAR observes that against the net

owned funds of Rs. 130.66 crores as on 31.12.2017, the level of loans and advances as on 31.12.2017 is Rs.70.68 Crores. However, it is noted that as per the financial statements of the Company as on March 31, 2017, the long term loans and advances are reported as Rs. 19.74 crores. Whereas, the figure of Rs. 70.68 crores is reflected against the trade advances given by the Company. Before going in the merits of this allegation, I note that the loans and advances as reported in the financial statements of Iris are mentioned incorrectly in the FAR. In view of this, it may not be advisable to draw adverse inference based on this observation in the FAR.

32. From the discussion in paras 22 to 30 above, I find that Iris:

- i. Misrepresented financials relating to investments in other companies. (paras 22.1 to 22.6)
- ii. Misrepresented financials relating to trade advances paid to other companies. (paras 23.1 to 23.9)
- iii. Misrepresented financials on account of accepting and extending loans and advances to various entities. (paras 24.1 to 24.7)
- iv. Misrepresented financials on account of recording sales/purchases without any actual transactions. (paras 25.1 to 25.8)
- v. Violated LODR on account of non-disclosure and incorrect disclosure of related party transactions. (paras 26.1 to 26.13)
- vi. Misrepresented financials relating to trade payables and trade receivables. (paras 27.1 to 27.11)
- vii. Misrepresented financials on account of improper grouping of assets/ liabilities in the financial statements. (paras 28.1 to 28. 3)
- viii. Misrepresented financials on account of recording unusual transactions in the financial statements of the Company. (paras 29.1 to 29.3)
- ix. Misrepresented financials on account of improper disclosure of unquoted shares. (paras 30.1 to 30.4)

Thus, I find that Iris failed to represent a true and fair view of the state of affairs of the Company in compliance with the mandate contained in para 15 of IndAS1 and para 16 of AS1 and thereby violated provisions of Regulation 33(1)(c) and Regulation 48 of LODR Regulations.

B. Violations of PFUTP Regulations, 2003:

33. I note that the scope of work, as was assigned to the forensic auditor by BSE, as stated in the Forensic Audit Report, was as follows:

The detailed scope of audit as per the assignment letter issued in our favour is as under:

- a) Possible misrepresentation including its financials and / or businesses and / or violation of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (hereinafter referred to as “LODR Regulations”) and/or
- b) Possible misusing of books of accounts/funds of the Company including facilitation of accommodation entries and/ or entering into transaction to the detriment of minority shareholders and controlling shareholders and key management person (KMP)
- c) For the aforesaid reasons, the audit inter alia should cover the following:
 - 1 Suspicious transactions/items as provided in the SEBI / Exchange Orders passed on the Company
 - 2 To examine the books of accounts and backup records of the Company for the period of two years including the year of transactions referred in SEBI / Exchange Order to: -
 - Cash flow analysis to trace source of funds and end use of funds on sample basis ((as per the annual report of last two years)
 - Assess genuineness of the debtors/ receivables and creditors / payables,
 - Reconciliation of debtors / creditors as stated by the Company vis-à-vis the actual position and the prospects of recovery (focus on top debtors).
 - Analysis of related party transactions.
 - High value bank transactions to ascertain their relevance to the business of the Company and to identify the potential round-tripping of funds or accommodation transactions.
 - Assess genuineness of expenditure (capex as well as other goods and services) and review of top vendors / suppliers / customers.
 - Investments made by the Company in subsidiary companies along with the relevant fund flows, if any.
 - Assess genuineness of investments both listed and unlisted with appropriateness of valuation and flow of funds.
 - Assessment of utilization of funds lying as share premium, if any, in terms of provisions of Companies Act.
 - Comment on the shareholding pattern.
 - Wherever applicable, the relevant funds flow including analysis of relevant bank statements (also source and utilization of funds).
- d) Verification / discussions:
 - i. Independent and /or physical verification of the underlying transactions.

- ii. Background / reputation checks based on public domain information related to promoters, nature/ line of business, genuineness of business activities of the Company.
- iii. Discussions with key stakeholders like Promoters/ Senior Management Team / Departmental heads, vendors, customers, company auditors, entities/persons involved in day to day affairs of the Company, etc.
- iv. Business history, directorship searches and litigations.
- v. Assessment of size and scope of business.
- vi. Site visit as may be applicable for verifying existence of the Company functional/ registered office, assets, place of execution of services, etc. In case of doubt, site visit to be carried out at plants/ factories.

34. I note that conclusion of the forensic audit, as mentioned in the FAR, is as under:

Based on the facts and our observations mentioned above, it can be concluded that during the period under audit, the Company has undertaken following transactions which are pre-judicial to the interest of minority shareholders / Company–

A. Misrepresentation of the accounts / Financial Statements as evident from the following findings:

- a) The Company has Accepted / extended Loans & Advances to various entities without specifying the terms of repayment and paying / charging any Interest*
- b) Non- Disclosure of facts and figures in the financial statements with regard to related parties.*
- c) Improper recording / grouping of assets / liabilities, negligible movements in Trade Payables / Receivables, non-provisioning of permanent diminution in value of investments*
- d) Recording of sales / purchase without providing any evidence of physical movement of goods*
- e) Improper disclosure of unquoted investments.*

B. Misuse of books of account/ funds of the Company

- a) Investment through Share Application Money*
 - Invested in companies which is strike off /certain companies name not exist as per public domain (MCA portal)*
 - Invested in companies in which directors of these companies are having relationship in other companies which having direct/indirectly relationship with company.*
 - Use of bank account for round tripping off funds without having any underlying business transaction*
- b) Trade Advances*

- *Receipts / payment of funds by the Company without any legit business objective*
- *Trade advances paid to companies which is strike off /certain companies does not exist as per public domain (MCA portal)*
- *The directors of these companies are having relationship in other companies which having direct/indirectly relationship with company.*
- *Trade advances given to different entities which are having same identical email id*
- *Pending since long still no action under taken by company for recovery.*

c) *Sale / Purchase*

- *Use of bank account for round tripping off funds without having any underlying business transaction*
- *Sales made to the single company in FY 2015-16 which also under the suspect and included in the list of shell companies*
- *No supporting/evidence available along with invoice*
- *Unusual transactions observed -Funds receiving from creditor & payment made to debtors*
- *Major purchase made from the Company whose name is also included in the list of shell companies.*
- *No Inflow of funds in banking is seen from the turnover made by the Company in FY 2016-17.*

d) *Loan & advances*

- *The Company has Accepted / extended Loans & Advances to various entities without specifying the terms of repayment and paying / charging any Interest*
- *Receipts / payment of funds by the Company without any legit business objective*

e) *No attendance register are provided to verify the staff expenses.*

35. As can be noted from the above terms of reference of the auditor, scope of audit was to examine possible violations of LODR Regulations and not violations of PFUTP Regulations, 2003 and accordingly, the findings of the FAR are confined only to misrepresentation in the books of accounts of Iris and consequential and other violations of LODR Regulations. It is observed that the Investigating Authority, after examining the FAR, incorporated the findings of FAR as part of investigation report, and consequently, the same was reproduced in the SCN. However, the SCN additionally states, “.....8. *“it was observed that the Company (noticee no. 1) and its directors and the Chief Financial Officer (noticee no. 2 to 9) failed to present true and fair financial statements, executed transactions which are non-genuine in nature resulting in misrepresentation of the accounts/ financials statement and*

misuse of account/ funds of the Company and such acts were found to be fraudulent in nature as they induced the investors to trade in the securities of the Company and had the potential to mislead the investors”. Consequently, the SCN, *inter alia*, additionally, includes allegation of violation of provisions of Section 12A(a), (b) & (c) of the SEBI Act, 1992 and Regulations 3(b), (c) & (d), 4(1) and 4(2)(f) & (r) of PFUTP Regulations, 2003. I observe that while including the above violations in the findings of the stated SEBI investigation and consequently, in the SCN, there is no additional facts or findings provided, which is not in the FAR. It is observed that Noticee no. 1 to 11 have been charged with the violation of Section 12A(a), (b) & (c) of the SEBI Act, 1992 and Regulations 3(b), (c) & (d) of PFUTP Regulations, 2003 which can be in relation to dealing in securities. However, no details of trading viz: volume of shares traded, price impact, % increase or decrease in price, etc. have been provided. Nor is there any analysis as to how each of the finding of FAR has impacted the persons dealing in securities.

36. I note that Section 12A(a), (b), (c) of the SEBI Act, 1992 deals with fraud related to securities market and the provisions of Regulations 3(b), (c) & (d), 4(1) and 4(2)(f) & (r) of PFUTP Regulations, 2003 are also related to securities market fraud/manipulation/ unfair trade practices. Section 12A (a), (b) & (c) of the SEBI Act, 1992 may be invoked in cases where there exists any manipulative or deceptive device or contrivance, any device, scheme or artifice to defraud or any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, purchase or sale of any securities. In the SCN, there are no trading or order data or details of any purchase, sale or price impact analysis that would impact the investors.
37. It is further observed that Regulation 4(1) of PFUTP Regulations, 2003, at the relevant time, dealt with fraudulent and unfair trade practices relating to securities while Regulation 4(2) is nothing but an enumeration of specific instances of fraudulent and unfair trade practices relating to securities. The common thread through these provisions is that the ingredients of fraud/ manipulation/ unfair trade practices must be satisfied. In this regard, I note that the Explanation inserted to Regulation 4(1) of PFUTP Regulations, 2003 with effect from October 19, 2020 clarifies as follows:

“Explanation.—For the removal of doubts, it is clarified that any act of diversion, misutilisation or siphoning off of assets or earnings of a company whose securities are listed or any concealment of such act or any device, scheme or artifice to manipulate the books of accounts or financial statement of such a company that would directly or indirectly manipulate the price of securities of that company shall be and shall always be deemed to have been considered as manipulative, fraudulent and an unfair trade practice in the securities market.”

38. Thus, as per the aforesaid explanation also any device, scheme or artifice to manipulate the books of accounts or financial statement of a company, in order to be termed as manipulative, fraudulent and an unfair trade practice in the securities market should have directly or indirectly result into manipulation of the price of securities of that company. In the present case, there is no allegation of manipulation of price shares of Iris. I note that FAR does not allege any diversion/ misutilisation of funds which as per the aforesaid explanation can be termed as manipulative, fraudulent and an unfair trade practice in the securities market without there being any direct or indirect manipulation of the price of the securities of the Company. I note that there is no bar on taking action by SEBI on the basis of a FAR, invoking provisions of PFUTP Regulations, 2003 and other similar provision of SEBI Act, 1992 related to fraud, if, after examination of the matter, including the FAR, SEBI finds that there was impact on the securities market or the price of the scrip, which are ingredients to prove violations of PFUTP Regulations, 2003. I further observe that the definition of fraud as given under Regulation 2(1) (c) and as interpreted by the Hon'ble Supreme Court of India in Securities and Exchange Board of India and Ors v. Kanaiyalal Baldevbhai Patel and Ors. (2017) 15 SCC 753, makes it clear that 'inducement' is required to constitute 'fraud' under PFUTP Regulations 2003 and must be made while 'dealing in securities' and must be made for the purpose 'to induce others to deal in securities'. The allegations made in the SCN does not bring out findings or any facts relating to impact on trading in securities or these essential ingredients of 'fraud' such as 'manipulation in securities', 'dealing in securities', 'inducement', etc.

39. Therefore, I find that violations of PFUTP Regulations, 2003, as alleged in the SCN, are very general and vague in nature without making out any specific case containing

necessary ingredients required to constitute these violations. In my view, due to the aforesaid reasons, under the facts and circumstances of the present case, I find that the allegations of violation of Section 12A(a), (b & (c) of the SEBI Act, 1992 and provisions of PFUTP Regulations, 2003 is not tenable against Noticee nos. 1 to 11. However, SEBI is at liberty to issue fresh SCN to pursue violations of PFUTP Regulations, 2003 by bringing out specific case/ingredients under PFUTP Regulations, 2003.

40. I note that Noticee no. 10 and 11, being the statutory auditors of Iris during the period under Forensic Audit i.e. April 1, 2015 to March 31, 2017, have also been issued separate show cause notices i.e. SCN-II and SCN-III, alleging that the statutory auditors have been negligent in performance of their duties and have not carried out proper due diligence and have not reported non-compliance of accounting principles by the Company including instances of misuse/misrepresentation of funds and/or books of accounts by the Company in its audit report. SCN also alleged that the auditors issued an audit opinion with limited qualification, stating that *“the aforesaid (standalone) financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India”*. Such certification of annual reports by the auditors has resulted in not only the shareholders but also the public being misled about the financial health of the Company, thereby violating provisions of Section 12A(a), 12A(b) and 12A(c) of SEBI Act, 1992 and Regulation 3(b), 3(c) and 3(d), Regulation 4(1), 4(2)(a), 4(2)(e), 4(2)(f) and 4(2)(r) of PFUTP Regulations, 2003. In this regard, before dealing with the liability of the statutory auditors, it would be appropriate to refer to the judgment of Hon’ble Bombay High Court in Writ Petition No. 5249 of 2010 (filed by Price Waterhouse, Bangalore) and Writ Petition No. 5256 of 2010 (filed by 10 CA firms alongwith their partners), dated August 13, 2010, wherein Hon’ble Bombay High Court held as under:

“25. In our view, the jurisdiction of SEBI would also depend upon the evidence which is available during such inquiry. It is true, as argued by the learned counsel for the petitioners, that the SEBI cannot regulate the profession of Chartered Accountants. This proposition cannot be disputed in any manner. It is required to be noted that by taking remedial and

preventive measures in the interest of investors and for regulating the securities market, if any steps are taken by the SEBI, it can never be said that it is regulating the profession of the Chartered Accountants. So far as listed Companies are concerned, the SEBI has all the powers under the Act and the Regulations to take all remedial and protective measures to safeguard the interest of investors and securities market. So far as the role of Auditors is concerned, it is a very important role under the Companies Act. As posited in Section 227 of the Companies Act, every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the Company, whether kept at the head office of the Company or elsewhere, and shall be entitled to require from the officers of the Company such information and explanations as the auditor may think necessary for the performance of his duties. The auditors in the Company are functioning as statutory auditors. They have been appointed by the shareholders by majority. They owe a duty to the shareholders and are required to give a correct picture of the financial affairs of the Company.

With a view to safeguard the interests of such investors, in our view, it is the duty of the SEBI to see that maximum care is required to be taken to protect the interest of such investors so that they may not be subjected to any fraud or cheating in the matter of their investments in the securities market. Normally, an investor invests his money by considering the financial health of the Company and in order to find out the same, one will naturally bank upon the accounts and balance-sheets of the Company. If it is unearthed during inquiry before SEBI that a particular Chartered Accountant in connivance and in collusion with the Officers/Directors of the Company has concocted false accounts, in our view, there is no reason as to why to protect the interests of investors and regulate the securities market, such a person cannot be prevented from dealing with the auditing of such a public listed Company. In our view, the SEBI has got inherent powers to take all ancillary steps to safeguard the interest of investors and securities market.”

41. From the above-mentioned judgment of Hon’ble Bombay High Court, it is observed that for SEBI to exercise jurisdiction over an auditor, it has to be shown that the case pertains to an auditor who in connivance and in collusion with the officers or directors of a company has concocted false accounts. I note that in the present matter SCN-II and SCN-III, as issued to Noticee no. 10 and 11 respectively, only allege that the

statutory auditors were not diligent enough in the issuance of an audit opinion with limited qualification for the financial statements of Iris. The SCN-II and SCN-III do not allege that the statutory auditors were in connivance with the promoters/ directors / management of Iris to fudge the financial statements of Iris. Moreover, as discussed in previous paras, I note that the charges of violation of provisions of SEBI Act, 1992 and PFUTP Regulations, 2003, pertaining to fraud, have not been made out even against the Noticee nos. 1 to 11 and SEBI has been given liberty to issue fresh SCN to pursue violations of PFUTP Regulations, 2003 by bringing out specific case/ingredients under PFUTP Regulations, 2003. Therefore, in view of the judgment of the Hon'ble Bombay High Court in PWC matter (supra) and other facts and circumstances of the case, violations, as alleged in the SCN-II and SCN-III against Noticee no. 10 and 11, are not made out.

42. SCN, also alleges that Iris has violated Regulation 4(1)(a),(b),(c),(e) & (g), 4(2)(f)(ii)(6) & (7), 4(2)(f)(iii)(1),(3),(6) & (12), 6(1) and 17(8) of the LODR Regulations. In this regard, I note that Regulation 4 of LODR Regulations, lays down principles governing disclosures and obligations of the listed entity under the LODR Regulations. Specific clauses of Regulation 4(1), the violation of which has been alleged in the SCN, provides that the listed entity which has listed securities shall make disclosures and abide by its obligations under these regulations, in accordance with the following principles:

- x. Information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosure.
- xi. The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.
- xii. The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.

- xiii. The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made thereunder, are adequate, accurate, explicit, timely and presented in a simple language.
- xiv. The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognised stock exchange(s) in this regard and as may be applicable.

43. As discussed above, Iris has been found to be in violation of Regulation 33(1)(c) and Reg. 48 of the LODR Regulations, therefore, Iris was not in compliance of the principles laid down in the aforesaid clauses of Regulation 4(1) and hence, Iris is in violation of 4(1)(a), (b), (c), (e) and (g) of LODR Regulations.
44. Regarding the violations of Regulations 4(2)(f)(ii)(6) & (7) and 4(2)(f)(iii) (1), (3), (6) & (12) of the LODR Regulations by Iris, as alleged in the SCN, I find that Regulation 4(2)(f) enlists the responsibilities of board of directors of listed entities. Clause (ii) of Regulation 4(2)(f) deals with key functions of the board of directors and Clause (iii) deals with other functions of the board of directors. Any liability arising out of the violation of these principles because of violation of disclosure or other obligation of the listed entity under the LODR Regulations, is of the board of directors of the listed entity. Therefore, I find that Iris cannot be said to be in violations of Regulation 4(2)(f)(ii) (6) & (7) and 4(2)(f)(iii) (1), (3), (6) & (12) of the LODR Regulations which pertain to obligations of the board of directors.
45. Regarding the violations of Regulation 6(1) of the LODR Regulations by Noticee no.1, as alleged in the SCN, I find that Regulations 6(1) mandates appointment of a qualified company secretary as compliance officer. It is noted that the SCN does not allege that Iris did not appoint a compliance officer in compliance with LODR Regulations. Further, no observation regarding appointment of compliance officer is made in the FAR. Therefore, I find that Noticees no. 1 cannot be said to be in violation of Regulation 6(1) of LODR Regulations which pertains to appointment of compliance officer.

46. Regarding the violations of Regulation 17(8) read with Part B of Schedule II of LODR Regulations by Noticee no.1, as alleged in the SCN, I find that Regulation 17(8) mandates that the chief executive officer and the chief financial officer shall provide the compliance certificate to the board of directors as specified in Part B of Schedule II. Since the said provisions pertain to chief executive officer and the chief financial officer of the Company, I find that Noticee no.1 cannot be said to be in violation of Regulation 17(8) of LODR Regulations.
47. Regarding the violations of Regulations 23(2) and 23(4) of the LODR Regulations by Noticee no.1, as alleged in the SCN, I find that Regulation 23(2) provides that all related party transactions shall require prior approval of the audit committee. Further Regulation 23(4) provides that all material related party transactions shall require approval of the shareholders through resolution. It is noted that the SCN does not allege that Noticee no.1 did not take approval of audit committee for related party transactions. Further, the SCN also does not allege that Noticee no.1 did not take shareholder's approval for material related party transactions. Further, no observation in this regard is made in the FAR. Therefore, I find that Noticee no.1 cannot be said to be in violation of Regulations 23(2) and 23(4) of LODR Regulations.
48. SCN further alleges that Iris has violated Section 21 of SCRA, 1956. In this regard, I note that Section 21 of SCRA, 1956 provides that 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. I note that securities of Iris are listed on BSE. The relevant extract of the two of the conditions, as contained in uniform listing agreement, as mandated by SEBI Circular No. CIR/CFD/CMD/6/2015 dated October 13, 2015, is as under:

“.....1. That the Issuer shall comply with the extant provisions of all the applicable statutory enactments governing the issuance, listing and continued listing of securities.

2. That without prejudice to the above clause, the Issuer hereby covenants and agrees that it shall comply with the following:—

- i. the SEBI (Listing Obligations And Disclosure Requirements) Regulations, 2015 and other applicable regulations /guidelines/ circulars as may be issued by SEBI from time to time.
- ii. the relevant byelaws / regulations / circulars / notices / guidelines as may be issued by the Exchange from time to time.
- iii. such other directions, requirements and conditions as may be imposed by SEBI/Exchange from time to time.....”

49. Above two are the conditions of listing agreement which every issuer company, whose securities are listed on a recognised stock exchange, is required to comply. As can be seen from the above-quoted conditions, one of the condition is compliance with LODR Regulations. In the present case, Iris is a company whose securities are listed on BSE Ltd. which is a recognised stock exchange. Iris being a company having its securities listed on BSE was also required to sign the said uniform listing agreement with BSE and in view of the provisions of Section 21 of SCRA, 1956, Iris was bound to comply with the conditions of the uniform listing agreement, as extracted above. Iris has been found to be in violation of the provisions of the LODR Regulations, as discussed above, therefore, Iris is in violation of the condition of the listing agreement and hence, is also in the violation of Section 21 of SCRA, 1956.

50. SCN further alleges that by virtue of the provision of Section 27 of the SEBI Act, 1992, Noticee nos. 2 to 9, who were the directors/CFO of Iris at the relevant time, are liable for the violations alleged to be committed by Iris viz: Section 12A (a), (b) and (c) of the SEBI Act, 1992, Regulations 3(b), (c) & (d) and 4(1) and 4(2) (f) & (r) of the PFUTP Regulations, 2003, Regulations 4(1) (a), (b), (c), (e) & (g), Regulations 4(2)(f)(ii)(6) & (7), 4(2)(f)(iii)(1), (3), (6) & (12), 6(1), 17(8) read with Part B of Schedule II Clause B(2) of Schedule III read with 30, 23(2), 23(4), 33(1) and 48 of LODR Regulations and Section 21 of SCRA, 1956. Thus, SCN imputes all the allegations which are levelled against Iris, automatically, on the directors /CFO of Iris. As already discussed in the forgoing paras, as regards the violations of Section 12A (a), (b) and (c) of the SEBI Act, 1992, Regulations 3(b), (c) & (d) and 4(1) and 4(2) (f) & (r) of the PFUTP Regulations, 2003, as alleged in the SCN, liberty has been given to SEBI to further investigate and proceed with the matter and the role of directors *qua* these violations may also be examined by SEBI. In the previous

paras, it has been found that Iris was in violation Regulations 4(1) (a), (b), (c), (e) & (g), 33(1)(c) and Reg. 48 of the LODR Regulations and Section 21 of SCRA, 1956. Therefore, in the context of Noticee no. 2 to Noticee no. 9, it has to be determined whether these Noticees are liable for those violations for which Iris has been found to be in violation, either by virtue of Section 27 of the SEBI Act, 1992 or otherwise. Regarding applicability of the Section 27 of the SEBI Act, 1992, I note that during the relevant period (i.e. Financial Years 2015-16 to 2016-17), Section 27 provided for the vicarious liability of certain persons who were in charge of and was responsible to the company where an offence is committed by a company. Section 27 at that time did not provide for the vicarious liability in respect of the civil liability of the company arising out of the violations committed by such company. However, after amendments made to Section 27 with effect from March 08, 2019, by the Finance Act, 2018, vicarious liability for civil liability of the Company has been introduced by replacing the word “offence” with the word “contravention” in Section 27 of the SEBI Act, 1992. Therefore, Section 27 of the SEBI Act, 1992, at the relevant time, did not create any vicarious liability of these Noticees for the violations committed by Iris, with reference to LODR Regulations for which proceedings under Section 11, 11A, 11B and monetary penalty has been proposed, which are civil in nature. Now, the question remains whether these Noticees can be held independently liable for the violations alleged against them without any reference to vicarious liability under Section 27 of the SEBI Act, 1992. I note that Regulations 4(2)(f)(ii)(6) & (7), 4(2)(f)(iii)(1), (3), (6) & (12), 33(1) and 48 of LODR Regulations, the violations of which have been alleged against Noticee no. 2 to 9, create specific and direct liability of the board of directors. As discussed above, Clause (ii) deals with key functions of the board of directors and Clause (iii) deals with other functions of the board of directors. Thus, board of directors is responsible for complying with these principles. Any liability arising out of the violation of these principles because of violation of disclosure or other obligation of the listed entity under the LODR Regulations or otherwise, is fastened on the board of directors of the listed entity. In the previous paras, it has been found that Iris was in violation of Regulations 4(1) (a), (b), (c), (e) & (g), 33(1)(c) and 48 of the LODR Regulations and Section 21 of SCRA, 1956. In view of these violations found to have been committed by Iris, the principles contained in Regulation 4(2)(f)(ii)(6) & (7) and 4(2)(f)(iii)(1)(3), (6) & (12) are also violated for which Noticee nos. 2 to 9, being part of the board of directors

of Iris are liable. Noticee no. 3 being the CFO of Noticee no. 1 has also violated Regulation 17(8) read with Part B of Schedule II of LODR Regulations.

51. I note that Noticee nos. 2 to 9 were the directors of the Company and Noticee no. 3 was also serving as CFO of the Company, during the period of violations alleged in the SCN, i.e. April 01, 2015 to March 31, 2017. The management of the Company during 2015-16 and 2016-17 is as follows:

FY 2015-16

Name	Designation
Mr. Rajendra Karnik (Noticee no. 2)	Chairman, Managing Director
Mr. Sandesh Sawant (Noticee no. 3)	Chief Financial Officer and Executive Director
Mr. Rakesh Naik (Noticee no. 4)	Executive Director
Mr. Kunal Ranjan (Noticee no. 5)	Non-Executive Independent Director
Ms. Neha Gupta (Noticee no. 6)	Non-Executive Independent Director
Mr. Allan Rebello (Noticee no. 7)	Non-Executive Independent Director

FY 2016-17

Name	Designation
Mr. Rajendra Karnik (Noticee no. 2)	Managing Director
Mr. Allan Rebello (Noticee no. 7)	Non-Executive Director
Mr. Mitesh Jani (Noticee no. 8)	Additional Executive Director
Mr. Rakesh Naik (Noticee no. 4)	Non-Executive Director
Mr. Atul Kumar (Noticee no. 9)	Non-Executive Independent Director
Ms. Neha Gupta (Noticee no. 6)	Non-Executive Independent Director
Mr. Sandesh Sawant (Noticee no. 3)	Chief Financial Officer

52. Noticee no. 7 has contended that he was a non-executive independent director of the Company and did not have any day to day control over the affairs of the Company, therefore, they cannot be held liable for the violations alleged in the SCN. In this regard, I note that Noticee No. 7 was a non-executive independent director only during FY 2015-16. During FY 2016-17, Noticee no. 7 served as non-executive director on the board of Iris. Therefore, the submission of Noticee no. 7 that he was a non-executive independent director of Iris is not correct for FY 2016-17. Moreover,

it is noted that Regulation 4(2)(f) refers to board of directors of company, it does not make any distinction between independent director or other directors.

53. During the financial years 2015-16 to 2016-17, the details of audit committee members of Iris, number of audit committee meetings held and the meeting attended by the concerned directors, are as under:

Name of the Director	Attendance Particulars			
	2015-16		2016-17	
	Held	Present	Held	Present
Mr. Kunal Ranjan (Noticee no. 5)	5	5	5	NA
Ms. Neha Gupta (Noticee no. 6)	5	5	5	5
Mr. Rajendra Karnik (Noticee no. 2)	5	5	5	5
Mr. Atul Kumar (Noticee no. 9)	5	NA	5	2

54. Regarding the liability of the independent directors for the acts of commission and omission of a company reference may be made to Regulation 25(5) of the LODR Regulations which provides that an independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through processes of board of directors, and with his consent or connivance or where he had not acted diligently with respect to the provisions contained in these regulations. As discussed in previous paragraphs, the Company has been found to be in violation of Regulations 4(1) (a), (b), (c), (e) & (g), 33(1)(c) and Reg. 48 of LODR Regulations and Section 21 of SCRA, 1956. In respect of the aforesaid violations by the Company, I note that Noticee no. 2 to 9 have already been found to have violated Regulation 4(2)(f)(ii)(6) & (7) and 4(2)(f)(iii)(1),(3), (6) & (12) of LODR Regulations. I note that Noticee nos. 5, 6 and 9, being the independent Directors of Iris and being part of the audit committee of Iris reviewed the financial statements of Iris, and approved the financials of Iris as part of the board of directors of Iris. I note that in terms of Regulation 33(2)(d) of LODR Regulations financials statements are placed before the board of directors of the listed entity and in terms of Regulation 18(3) read with Clause A(1) of Part C of Schedule II of LODR Regulations, the role of the audit committee is to ensure that the financial statements are correct. Omission to

raise any concern regarding the financials of Iris, as member of the audit committee as well as the board of directors of Iris, shows that these directors did not act diligently with respect to the provisions contained in the LODR Regulations.

55. In view of the aforesaid violations committed by Iris and its directors/CFO, I find that directions under Sections 11(1), 11(4), 11A and 11B (1) of the SEBI Act, 1992 and Section 12A (1) of SCRA, 1956, needs to be issued.
56. SCN in the matter, also calls upon the Noticee no. 1 to 9 to explain as to why appropriate penalty be not imposed upon it under Sections 15HA and 15HB of SEBI Act, 1992 and Section 23E of SCRA, 1956, for the violations alleged in the SCN. Extract of these penalty provisions, as existing at the relevant time is as under:

Extract of Section 15HA and 15HB of SEBI Act, 1992:

Penalty for fraudulent and unfair trade practices.

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

Penalty for contravention where no separate penalty has been provided.

15HB. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

Extract of Sections 23E of SCRA, 1956:

Penalty for failure to comply with provision of listing conditions or delisting conditions or grounds.

23E. If a company or any person managing collective investment scheme or mutual fund, fails to comply with the listing conditions or delisting conditions or grounds or commits a breach thereof, it or he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees.

57. From the analysis of the aforesaid penalty provisions, I find that penalty under Section 15HB of the SEBI Act, 1992, is attracted and not the penalties under Section

15HA of SEBI Act, 1992 and Sections 23E of SCRA, 1956. I note that Section 15HA of the SEBI Act, 1992 provides for imposition of penalty in case of fraudulent and unfair trade practices committed by any person. As in the present case, it has been found that violations of Section 12A(a), (b) & (c) of SEBI Act, 1992 and provisions of PFUTP Regulations, 2003 have not been made out, therefore, penalty under Section 15HA of SEBI Act, 1992 is not attracted against the Noticees. I also note that Section 23E of SCRA, 1956 provides for penalty for failure to comply with, *inter alia*, listing conditions by “a company or any person managing collective investment scheme or mutual fund”. In the present case, it has been found that Iris is in violation of listing conditions, however, Iris is not managing any collective investment scheme or mutual fund, so as to attract penalty under Section 23E of SCRA, 1956. I find that penalty under Section 23H of SCRA, 1956 is also not attracted in the case of Noticee no. 2 to 9, as Section 23H provides for penalty for failure to comply with any provision of SCRA, 1956, the rules or articles or bye-laws or the regulations of the recognised stock exchange or directions issued by SEBI for which no separate penalty has been provided. As the Noticee no. 2 to 9, being directors/CFO of Iris, have been found to be in violation of LODR Regulations, which is a regulation framed under the SEBI Act, 1992 and SCRA, 1956 by SEBI and not the “regulation” of stock exchange, as contemplated under Section 23H, and there is no violation of direction of SEBI directions alleged against these Noticees, therefore, Section 23H is not attracted in the case of Noticee no.2 to 9. Iris has been found to have violated provision of Section 21 of SCRA Act, 1956, therefore, provisions of Section 23H is attracted qua Noticee no.1.

58. I find that for the violation of LODR Regulations, Iris is liable for imposition of penalty under Section 15HB of the SEBI Act, 1992 which provides for penalty for failure to comply with any provision of SEBI Act, 1992, the rules or the regulations made or directions issued by SEBI for which no separate penalty has been provided. Since, LODR Regulations are framed under SEBI Act, 1992 also and penalty provisions under SEBI Act, 1992 (i.e. 15A to 15HA) does not separately provide for any penalty for violation of LODR Regulations, therefore, for violation of LODR Regulations by Iris, as found in this order, penalty under Section 15HB is attracted against Iris. Similarly, Noticee no. 2 to 9 who are the directors/CFO of Iris are liable for imposition

of penalty, for the violations of LODR Regulations which are found to be committed by them, under Section 15HB of the SEBI Act, 1992.

59. For imposition of penalty under the provisions of the SEBI Act, 1992, Section 15J of the SEBI Act, 1992 provides as follows:

“Factors to be taken into account while adjudging quantum of penalty.15J.

While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;

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

(c) the repetitive nature of the default.

Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.”

60. I find that material available on record does not mention the amount of disproportionate gain or unfair advantage made as a result of the default. I find that the material available in FAR and SCN does not indicate the amount of specific loss caused to investors or group of investors as a result of the default by Noticee no. 1 to 9. I note that the allegations in the SCN relating to misrepresentation in financials have been found to be correct in the case of Company. However, I note that the violations have occurred over a period of two financial years. I also note that Noticee no. 5, 6 and 9 were the independent directors of Iris for FY 2015-16 and 2016-17. I note that Noticee no. 5 was Independent Director and attended audit committee meeting during FY 2015-16 only. Further, Noticee no. 9 was Independent Director and attended audit committee meetings during FY 2016-17 only.

Directions and monetary penalties:

61. In view of the aforesaid findings and having regard to the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Section 11(1), 11(4),

11(4A), 11A and 11B(1), 11B(2) of SEBI Act, 1992 and Section 12A(1) of SCRA, 1956 read with Section 19 and Section 11(2)(j) of SEBI Act, 1992 and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, direct as under:

- (i) The Noticee no. 1, 2, 3, and 8, are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of one (1) year, from the date of coming into force of this order;
- (ii) The Noticee no. 4, 5, 6, 7 and 9, are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of six (6) months, from the date of coming into force of this order;
- (iii) The Noticee nos. 1 to 9, are hereby imposed with, the monetary penalties, as specified hereunder:

Noticee No.	Name of Noticees	Provisions under which penalty imposed	Penalty Amount (In Rupees)
Noticee no. 1	IRIS Mediaworks Limited	Section 15HB of SEBI Act, 1992 and Section 23H of SCRA, 1956	20 Lakhs
Noticee no. 2	Mr. Rajendra Karnik,	Section 15HB of SEBI Act, 1992	10 Lakhs
Noticee no. 3	Mr. Sandesh Sawant	Section 15HB of SEBI Act, 1992	7 Lakhs
Noticee no. 4	Mr. Rakesh Naik	Section 15HB of SEBI Act, 1992	6 Lakhs

Noticee no. 5	Mr. Kunal Ranjan	Section 15HB of SEBI Act, 1992	1 Lakh
Noticee no. 6	Ms. Neha Gupta	Section 15HB of SEBI Act, 1992	2 Lakhs
Noticee no. 7	Mr. Allan Rebello	Section 15HB of SEBI Act, 1992	2 Lakhs
Noticee no. 8	Mr. Mitesh Jani	Section 15HB of SEBI Act, 1992	5 Lakhs
Noticee no. 9	Mr. Atul Kumar	Section 15HB of SEBI Act, 1992	1 Lakh

(iv) The Noticees shall remit / pay the said amount of penalties within 45 days from the date of receipt of this order. The Noticees shall remit / pay the said amount of penalties through either by way of Demand Draft in favour of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, or through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT -> Orders -> Orders of Chairman/ Members -> PAY NOW. In case of any difficulties in online payment of penalties, the said Noticees may contact the support at portalhelp@sebi.gov.in. The demand draft or the details/ confirmation of e-payment should be sent to "The Division Chief, CFID-2, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051" and also to e-mail id:- tad@sebi.gov.in in the format as given in table below:

Case Name	
Name of Payee	
Date of Payment	
Amount Paid	
Transaction No.	

Payment is made for: (like penalties/ disgorgement/ recovery/ settlement amount/ legal charges along with order details)	
---	--

(v) The proceedings against Noticee no. 10 and 11 are disposed of without any adverse directions, in terms of observations at paragraph 41.

62. The obligation of the Noticees, restrained/ prohibited by para 61 of this Order, in respect of settlement of securities, if any, purchased or sold in the cash segment of the recognized stock exchange(s), as existing on the date of this Order, are allowed to be discharged irrespective of the restraint/prohibition imposed by this Order. Further, all open positions, if any, of the Noticees, restrained/prohibited in the present Order, in the F & O segment of the recognised stock exchange(s), are permitted to be squared off, irrespective of the restraint/prohibition imposed by this Order.
63. This Order comes into force with immediate effect.
64. This Order shall be served on all the Noticees, Recognized Stock Exchanges, Depositories and Registrar and Share Transfer Agents of mutual funds to ensure necessary compliance.
65. A copy of this Order shall also be forwarded to the Ministry of Corporate Affairs, Reserve Bank of India and Institute of Chartered Accountants of India, along with a copy of the Forensic Audit Report for their information and necessary action, if any.

Date: November 17, 2021
Place: Mumbai

ANANTA BARUA
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA