

**BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: S. K. MOHANTY, WHOLE TIME MEMBER**

INTERIM ORDER CUM SHOW CAUSE NOTICE

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

In respect of:

Sr. no.	Name of the Noticee	PAN
1.	Reliance Home Finance Limited	AAECR0305E
2.	Anil D. Ambani	AADPA3703D
3.	Amit Bapna	AAYPB9659A
4.	Ravindra Sudhalkar	AGGPS1926B
5.	Pinkesh R. Shah	ABAPS2169R
6.	Adhar Project Management and Consultancy Private Limited	AAHCA1962F
7.	Indian Agri Services Private Limited	AACCI7169M
8.	Phi Management Solutions Private Limited	AAECP7111Q
9.	Arion Movie Productions Pvt. Ltd.	AARCA6056E
10.	Citi Securities and Financial Services Private Limited	AACCC9559M
11.	Deep Industrial Finance Limited	AAACV1614N

12.	Azalia Distribution Private Limited	AAECB2295B
13.	Vinayak Ventures Private Limited	AADCV3723H
14.	Gamesa Investment Management Private Limited	AADCG2093F
15.	Medybiz Private Limited	AACCM0084D
16.	Hirma Power Limited	AABCH3229C
17.	Tulip Advisors Private Limited	AADCT0485A
18.	Mohanbir Hi-Tech Build Private Limited	AAJCM6196R
19.	Netizen Engineering Private Limited	AABCR7570C
20.	Crest Logistics and Engineers Private Limited (Now Known As CLE PRIVATE LIMITED)	AACCR7266A
21.	Reliance Unicorn Enterprises Private Limited	AAACC2436P
22.	Reliance Exchange next Limited	AABCR7567D
23.	Reliance Commercial Finance Limited	AABCR6898M
24.	Reliance Cleangen Limited	AAACR2664L
25.	Reliance Business Broadcast News Holdings Limited	AABCU0804C
26.	Reliance Broadcast Network Limited	AADCR1885L
27.	Reliance Big Entertainment Private Limited	AAFCA6658L
28.	Reliance Capital Limited	AAACR5054J

(The aforesaid entities are hereinafter individually referred to by their respective names/ Entity no. and collectively as “Entities”, unless the context specifies otherwise)

In the matter of Reliance Home Finance Limited

Background

1. The root of the present proceedings can be traced to multiple sources *inter alia*, a letter of Price Waterhouse & Co. (“**PWC**”) addressed to Reliance Home Finance Limited

Interim Order cum show cause notice in the matter of Reliance Home Finance Limited

(hereinafter referred to as “**RHFL/the Company/Noticee no.1**”) intimating their resignation as the Statutory Auditor of the *Company* citing various grounds & reasons; certain complaints received by Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) alleging siphoning off/diversion of funds of RHFL by promoters and management of the *Company*; and also receipt of multiple Fraud Monitoring Returns (“FMRs”) from Banks alleging, therein amongst others, that funds borrowed by RHFL from different lenders were partly used towards repayment of loans etc. It was also complained that various, connected parties and companies with weak financials were used as conduits to siphon off funds from RHFL to entities connected to the promoter company viz., Reliance Capital Limited (hereinafter referred to as “**RCL/Noticee no. 28**”).

2. Based on the aforesaid complaints, an investigation was undertaken by SEBI for the period of FY 2018-19. The focus of the said investigation was broadly to investigate into the manner in which the loans were disbursed by RHFL during the period of 2018-19 to several borrowing entities, so as to ascertain if any provision of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the “**SEBI Act, 1992**”), Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as the “**SCRA**”), Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations/SEBI (LODR Regulations)**”), Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (“**PFUTP Regulations**”) etc., have been violated.

3. In pursuance of the said investigation, SEBI has examined information from various sources, such as publicly available information, information provided by the Bank of Baroda including a copy of the report of Forensic Audit conducted by the bank into the affairs of the *Company*, information provided by the *Company* itself, information gathered from the borrowers of the *Company*, statements recorded by different Key Managerial Persons under oath during the investigation etc. The relevant facts about the background of the *Company* and the facts as gathered by SEBI from various other sources including the

report of Forensic Audit conducted by a lender bank, are being discussed under different subject heads in the following paragraphs of this order:

4. **General Information about the Company**

I. RHFL (*Noticee no. 1*) a subsidiary of Reliance Capital Limited (*Noticee no. 28*) (at the relevant times) is engaged in the business of Housing Finance and is also registered in that capacity with National Housing Bank (NHB). The shares of RHFL are listed on National Stock Exchange of India Limited (NSE) and BSE Limited (BSE). In terms of information furnished by RHFL vide its letter dated November 24, 2020, it (RHFL) is currently undergoing Resolution Process in terms of RBI's circular dated June 07, 2019 pertaining to Prudential Framework for Resolution of Stressed Assets.

II. The shareholding pattern of RHFL, as noted from the website of BSE is as follows:

Table no. 1

Sr. No.	Name of the Promoter & Promoter group	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021
1	Mr. Anil D. Ambani	0.06	0.06	0.06	0.06
2	Ms. Tina A Ambani	0.05	0.05	0.05	0.05
3	Jai Anmol A Ambani	0.02	0.02	0.02	0.02
4	Jai Anshul A Ambani	0.00	0.00	0.00	0.00
5	Kokila D. Ambani	0.11	0.11	0.11	0.11
6	Reliance Inceptum Private Limited	20.14	20.14	0.00	0.00
7	Reliance Innoventures Private Limited	0.12	0.12	0.00	0.00
8	Reliance Infrastructure Consulting & Engineers Private Limited	5.77	5.62	0.61	0.61
9	Crest Logistics and Engineers Pvt. Ltd.	0.67	0.67	0.67	0.67
10	Reliance Infrastructure Management Private Limited	0.14	0.14	0.14	0.14
11	Reliance Capital Limited (RCAP)	47.91	47.91	47.91	47.91
	Total	74.99% (of the same 21.62% have	74.85%(of the same 31.80% have	49.58%	49.58%

		been pledged)	been pledged)		
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III. From the aforementioned shareholding pattern, it is noted that Reliance Capital Limited (RCAP/*Noticee no. 28*) was the major promoter of RHFL (*Noticee no. 1*) during the relevant period holding 47.91% of its shares. Mr. Anil D. Ambani (*Noticee no. 2*) was also the Promoter and Non-executive and Non-Independent Director of RCAP, during FY 2018-19. Further, in terms of the Related Party disclosure made in the Annual Report of RCAP, *Noticee no.2* has been disclosed as an Individual Promoter being ‘*the person having significant influence during the year*’. Furthermore, *Noticee no.2* is also found to be a significant beneficial owner of the companies mentioned at Sr. no. 6, 7 and 8 in the table above.

IV. The details of Directors of RHFL during the Financial Year 2018-19 are as under:

Table no. 2

Sr. No.	Name of the Director	Type of Director	From	To
1	Mr. Padmanabh Vora	Independent Director	01-07-2008	29-04-2019
2	Ms. Deena Mehta	Independent Director	24-03-2015	30-03-2019
3	Lt Gen Syed Ata Hasnain (Retd.)	Independent Director	26-02-2018	-
4	Mr. Gautam Doshi%	Non-Executive & Non-Independent Director	01-07-2008	02-05-2019
5	Mr. Jai Anmol A. Ambani #%	Additional, Non-Executive & Non-Independent Director	24-04-2018	31-05-2019
6	Mr. Amit Bapna	Non-Executive Director	24-04-2017	23-06-2020
		CFO	08-09-2017	07-08-2018
7	Mr. Ravindra Sudhalkar	Executive Director	24-04-2017	24-01-2020
		CEO	01-10-2016	Continuing

#Appointed as an Additional Director on April 24, 2018
 % Source: Annual Report of RHFL for FY 2017-18 (page no. 43)

- V. The details of the Key Managerial Personnel (KMP) of RHFL during the year 2018-19 are as under:

Table no. 3

Sr. No.	Name of KMP	Designation
1	Mr. Ravindra Sudhalkar (Noticee no. 4)	Executive Director & CEO
2	Mr. Amit Bapna* (Noticee no.3)	Non-Executive Director & CFO
3	Mr. Pinkesh R Shah** (Noticee no. 5)	Chief Financial Officer
4	Ms. Parul Jain	Company Secretary & Compliance Officer

*Chief Financial Officer till August 07, 2018

**Chief Financial Officer w.e.f. August 07, 2018

- VI. The key financial highlights of RHFL for the investigation period (FY 2018-19) and the preceding year (FY 2017-18) are as follows:

Table no. 4

(INR In crore)

Liabilities	FY 2017-18	FY 2018-19
Borrowings other than debt Securities	6,156.12	8,819.67
Other liabilities include trade payables, debt securities, subordinate liabilities, provisions and other financial liabilities	7,427.11	7,463.77
Shareholder funds	1,824.52	1,842.00
Total	15,407.75	18,125.44
Assets		
Loans & Advances	14,410.45	16,251.09
Other assets include advance income tax, deferred tax assets (net) and other financial assets.	613.93	794.46
Fixed Assets	329.31	393.52
Investments	54.06	93.46
Total	15,407.75	18,125.44

(INR In Crore)

Profit and Loss Statement	FY2017-18	FY 2018-19
Operating Income	1622.75	1986.03
Other income includes profit on sale of investments, interest on income tax refund and miscellaneous income	60.59	16.56
Total Income	1683.34	2002.59
Profit Before Tax	246.93	101.60

- VII. RHFL as part of its business, provides Housing Loans, Loan against property and Construction Finance etc. The details of the loans extended by RHFL under various heads for the Financial Years 2017-18 and 2018-19, as recorded in the Annual Report for the year 2018-19 is as under:

Table no. 5

(INR in Crore)

Loans given to	FY 2017-18	FY 2018-19
Corporates	3742.60	8670.80
Small Business	5073.73	3824.00
Residential Mortgagees	5823.40	4034.67
Total	14,639.73	16,529.47

(Source: Annual Report of RHFL for the year 2018-19)

- VIII. The details captured in the Table no. 5 above indicate that the loans extended by RHFL to the Corporates has significantly increased from an amount of INR 3742.60 Crore in 2017-18 to INR 8670.80 Crore in the year 2018-19.

5. **Information submitted by PWC:**

- IX. On June 12, 2019, a corporate announcement was made by RHFL wherein it was informed that its statutory auditor, PWC, has resigned w.e.f June 11, 2019.
- X. In their letter dated June 11, 2019, addressed to the Board of Directors of RHFL, PWC had expressed that due to certain acts on the part of the *Company* such as non-receipt of substantive/satisfactory responses to the queries raised by them during the audit; failure to call the meeting of Audit Committee within the prescribed time after issuance of letter dated April 18, 2019 by PWC; and threatening PWC with

legal proceedings, it (PWC) was compelled to withdraw from the audit engagement in compliance with the Code of Ethics issued by the Institute of Chartered Accountants of India and the applicable standards on Auditing. RHFL, however, vide its letter dated June 12, 2019 addressed to NSE and BSE, expressed its disagreement with the reasons cited by PWC for its resignation.

- XI. PWC has also filed a report under Section 143 (12) of Companies Act, 2013 to Ministry of Corporate Affairs (MCA), and the said fact of reporting to MCA was informed to SEBI by PWC.
- XII. Prior to the aforesaid events, in its letter dated April 18, 2019 addressed to the CEO and CFO of RHFL, PWC while highlighting certain observations made by it during the ongoing (at that stage) Statutory Audit, and also sought responses of the management and Audit Committee on those observations. The said letter, *inter alia*, highlighted the fact that the amount of loans disbursed by RHFL under General Purpose Corporate Loans (GPC loans) have increased exponentially from around INR 900 Crore as on March 31, 2018 to around INR 7900 Crore as on March 31, 2019. Further, based on their examination of different samples of borrowers of such loans advanced by RHFL, PWC had highlighted certain issues of serious concern largely pertaining to the net-worth of such borrowers being negative; having limited/nil revenue or profit; no business activity of those borrowing companies other than entering into the transaction of borrowing from RHFL and lending the said borrowed sum onward; low equity capital in comparison to debt; incorporation of certain borrowers companies shortly before the receipt of the loans disbursed by RHFL; and in some cases the loan sanction dates are found to be on the same date as the date of application for loan or even before the dates of applications made by these borrowers.
- XIII. Further, the aforesaid examination of loan accounts by PWC revealed that several of such borrower companies are also found to be group companies of RHFL. This finding was made based on various peculiar attributes found in these companies

such as: *email id* of borrower company having email domain address of Reliance ADA group; brand name of “Reliance” appearing in the name of borrower company; Directors of such companies being employees of Reliance ADA group; and multiple borrower companies having same registered address, etc.

- XIV. Based on the aforesaid information, PWC in its letter sought answers to various queries such as what was the rationale behind sanctioning of such loans to those apparently group entities; procedures followed to monitor the end use of such loans; and also about the default committed by RHFL on its debt repayments. This apart, the said letter also highlighted as to why should the afore-stated borrowers be not considered as group companies under various statutes like Companies Act etc.
- XV. Answering to the issues so raised by PWC, RHFL, vide its letter dated May 09, 2019, while justifying such loans advanced to those apparently group company borrowers as pointed out by PWC, stated that: (a) the credentials of those borrowers were assessed based on their positive track records and it has advanced short term loans (upto 1 year) to these companies for meeting short term working capital requirements; (b) end use can be verified from the borrower entities only; (c) loans are extended on the strength of promoters/project/collateral; (d) loans have limited risk of weak collaterals or value erosions; (e) RHFL has been successful in recovering money in the past; (f) appropriate KYC/AML norms have been put in place; (g) top ten exposures are always presented to the Risk Management Committee and Audit Committee; and (h) that such loans do not fall under the definition of group companies and quantum/proportion of such loans were duly reported to NHB. Further, RHFL also informed that after being affected by timing mismatch with regard to the ongoing securitization/monetization proposals with banks etc., it has resulted in minor delay on recovering principal repayment of an amount of INR 735 Crore and the regularization of such repayments is expected shortly.

6. **Forensic Audit Conducted for Bank of Baroda**

XVI. A Forensic Audit was conducted by the lead bank of the consortium of lenders of RHFL, viz., Bank of Baroda into its loan transactions with RHFL. The scope of work of such audit was to conduct a detailed review for identifying the movement of funds wherein disbursements of loans were apparently made by RHFL to Potentially Indirectly Linked Entities (“**PILEs**”) during the period of April 01, 2016 to June 30, 2019 (“**review period**”). In pursuance of the same, the Forensic Auditor has submitted two reports, viz: (i) Report dated January 02, 2020 pertaining to Forensic Review (“**1st Report**”) and Report dated May 06, 2020 (“**2nd Report**”) pertaining to Fund Tracing Activity.

7. **Observations in the 1st Report**

XVII. In the 1st report, the Forensic Auditor has observed that an amount of INR 14, 577.68 Crore was disbursed by RHFL to numerous entities as General Purpose Corporate Loans (GPCL) over the review period and out of the said amount, an amount of INR 12, 487.56 Crore has been disbursed to 47 PILEs. Out of the aforesaid loan amount of 12, 487.56 Crore, as much as INR 7,984.39 Crore was outstanding (including interest) as on October 31, 2019. Further, out of the aforesaid outstanding amount, an amount of INR 2,727.59 Crore has been declared as Non-Performing Asset (“NPA”) as on October 31, 2019. Further, the report observed notable instances where (08) eight borrower entities were earlier being reflected as Related Parties of Reliance Power Limited and Reliance Infrastructure Limited (i.e. the group companies of RHFL), however, just before disbursement of such loans, these entities were reclassified as non-related party from the category of related party of such group companies (Rpower and Rinfra). To such 08 reclassified entities, a total loan amount of INR 1,323.43 Crore was found to have been disbursed.

- XVIII. Further, in a number of loan transactions, the repayment pattern of the borrower entities indicated certain trends like circular transactions, ever greening of loans, which are highlighted in the following table:

Table no. 6

Observations	No. of Instances	Amount (INR Cr.)
Potential evergreening of loans	15	785.80
Potential circular transactions	3	412.89
Total amount potentially received back to Target Entity (i.e. RHFL) as repayment of existing loans		1198.69

- XIX. The loan files review conducted by the Forensic Auditors has highlighted anomalies in the loan approval process followed by RHFL which includes deviation from credit policy and appraisal of loan applications in the absence of various relevant documents like financial statements, income tax returns, contact details etc.
- XX. The 1st report has also highlighted various serious anomalies in the credit appraisal process of RHFL. It was noticed that loans have been disbursed by RHFL prior to the sanction date of such loans; loans have been disbursed to parties with weak financials; and loans have been disbursed to entities which were incorporated recently thus having no significant business track record. There were other potential anomalies noticed in creation of charge on the security provided by the borrowers to RHFL. It was noticed that RHFL had disbursed loans aggregating INR 324.95 Crore during the review period to four (04) entities which had apparently inadequate repayment capacity. As a result, against the aforesaid loan amount, an amount of INR 310.02 Crore remained outstanding as on October 31, 2019 and all such four accounts have been declared as NPA by RHFL.
- XXI. As per the 1st report, around INR 12, 574 Crore (approximately) was disbursed to entities falling in PILEs category and some of such amounts were further lent by these PILEs onwards to other PILEs/Related parties/Group entities. A large

portion of such loans was found to have been extended without adhering to prudential lending norms related to repayment capacity, adequacy of security/collateral, other relevant key financial matrix of the borrowers and relevant documentations.

8. **Observations in the 2nd Report:**

- XXII. The 2nd report which deals in detail with ‘Fund tracing activity’ with respect to the loans advanced by RHFL, indicated that an amount of INR 12,573.06 Crore¹ has been disbursed under 150 Loan Cases falling under the category of PILEs during the review period (FY 2016-17 to 2018-19), out of which 100 Loan Cases amounting to INR 8,884.46 Crore were still open, or in other words, such Loan Cases were still outstanding in the books of RHFL. The details of such loan accounts are tabulated herein below:

Table no. 7

<i>For the period of 2016-17 to 2018-19</i>			<i>INR Cr.</i>	
Sr. No.	Disbursed to PILE	No of Loans	Amount	% to total Disbursement
1	Open LAN cases	100	8,884.46	71%
2	Closed LAN cases	50	3,688.60	29%
	Total	150	12,573.06	100%

LAN:- Loan Application Number

- XXIII. The amount of INR 8,884.46 Crore was first transferred to 43 PILEs (in 100 open loan cases referred to above), out of which an amount of INR 8,847.74 Crore was onward transferred to 19 entities and out of the said 19 entities, 14 entities were reportedly found to be Group Companies/other PILE entities bearing close nexus with the Promoter group:

¹ It is observe that there are certain discrepancies in the total figures of GPCL as mentioned in the two reports of forensic auditors.

Table no. 8

Sr. No.	Name of PILE/ Group Company	Group CO/PILE	Amount in Crores
1	Reliance Capital Limited	Group Co.	2359.91
2	Reliance Commercial Finance Limited	Group Co.	2278.58
3	Reliance Infrastructure Limited	Group Co.	1559.78
4	Reliance Home Finance Limited	Group Co.	1514.46
5	Reliance Big Entertainment Private Limited	Group Co.	254.09
6	Reliance Broadcast Network Limited	Group Co.	218.19
7	Reliance Business Broadcast News Holdings Limited	Group Co.	200.50
8	Reliance Power Limited	Group Co.	135.64
9	Crest Logistics And Engineers Private Limited	PILE	106.00
10	Gamesa Investment Management Private Limited	PILE	100.00
11	Kunjibhari Developers Private Limited	PILE	70.00
12	Reliance Mediaworks Financial Services Private Limited	Group Co.	14.73
13	Reliance Nippon Life Insurance Limited	Group Co.	11.00
14	Unlimit IOT Private Limited	Group Co.	5.00
	Total		8827.88

XXIV. Apart from the aforesaid onward lending, the Forensic Audit Report has also given a classification of an amount of INR 8,842. 87 Crore (Out of INR 8,884.46 Crore involving 100 loan cases mentioned in Table no. 7 above), based on utilization of such loans. A scrutiny of such 100 Open Loan cases indicated that some amount of funds advanced by RHFL have returned back to RHFL through circular transactions and also substantial amounts of such loans have been used by the borrowing entities for repayment of existing loans availed by them earlier from RHFL which means, such huge amounts of loans have been used by the borrowing entities for ever- greening of earlier loans. These broad findings about end use of such loans advanced by RHFL that were onward lent to those 14 Group companies/PILE, as noted from the said 2nd report of the Forensic Auditors are highlighted as below:

Table no. 9

Sr. No.	Particulars	Paid to Banks	Paid to Non-Banks	Potential Circular Transactions	Total
1	Reliance Home Finance Limited			1610.13	1610.13
2	Repayment of loan / borrowings	1029.13	276.86		1305.99
3	Bank statement not available		1238.73		1238.73
4	Repayment of Commercial Paper	125.51	860.59		986.10
5	Investment in fixed deposit / Auto-sweep and mutual funds		819.10		819.10
6	Group Company / Third Party (nature of transaction not known)	3.82	660.11		663.93
7	Transfer to another bank account - further details not made available		567.73		567.73
8	Interest on NCDs		551.12		551.12
9	NCD Repayment		522.73		522.73
10	Reliance Capital Limited Dividend account		210.00		210.00
11	Repayment of Cash Credit Facility	180.00			180.00
12	Payee/ Beneficiary name not Available		128.42		128.42
13	Other miscellaneous payments			23.86	23.86
14	Loan Disbursements			18.91	18.91
	Grand Total	1338.46	5835.39*	1610.13	8842.87

**The same is mentioned as INR 5894.28 crores in Forensic Audit Report, however, correct figures are INR 5835.39*

- XXV. The Forensic Auditors have also identified the connections between various entities involved in the end use of the funds advanced as loans by RHFL, to the extent possible. On further analysis of the broad classification of different end uses of the loans advanced by RHFL with respect to the afore-stated open (LAN) loan cases,

the Forensic Auditors have reported that around 40% of such loan funds aggregating to INR 3,573.06 Crore were utilized by the borrowers towards debt repayment/servicing of PILEs/other group companies against term loans, NCDs, commercial papers etc., availed by them. It is stated that an amount of INR 1,338.46 Crore has been utilized towards payment of banks and that INR 2,238.42 Crore has been utilized towards payment to NBFC/third party entities. Further, around 18% of the funds aggregating to INR 1,610.13 Crore is the amount that was involved in potential circular transactions, where the funds were routed back to RHFL via third parties, while around 9% of the funds aggregating to INR 819.10 Crore appears to have been used towards investments made in fixed deposits and mutual funds. The Forensic Auditors were however reportedly unable to trace out complete end utilization of around 22% of the funds aggregating to INR 1,934.88 Crore due to information limitations.

Findings from SEBI's investigation

9. In the context of the aforesaid factual findings from the two Forensic Audit Reports, and based on the quantum of loan disbursement made during the FYs 2016-17 to 2018-19, comprising "Review Period" of the Forensic Audit Report, I find that SEBI's investigation has primarily focused on the lending operations of RHFL during the FY 2018-19 (investigation period).

10. In terms of information submitted by RHFL, it had extended an amount of INR 8470.65 Crore as GPC loans to 45 unique entities during the investigation period (FY 2018-19). On further analysis of Loan portfolio especially GPC loans advanced by RHFL during the investigation period on which Forensic Audit Report 1 and 2 have made various adverse findings, it is observed that the top 14 GPCL Borrower accounted for around 51.75% of the total GPC loans advanced by RHFL during the Financial Year 2018-19, to whom an amount of INR 4,383.62 Crore was lent out of the total GPC lending of INR 8470.65 Crore. The said details are enumerated herein below:

Table no. 10

Total GPC Loans advanced	No. of entities involved	51.75% of the total GPCL	No. of entities
INR 8470.65 Crore	45	INR 4,383.62 Crore	14

11. In order to scout for further information, SEBI issued summons to the said 14 GPCL Borrower entities asking them to provide certain information with respect to the loans extended to them by RHFL. Subsequently, based on the responses received from 13 such entities (one entity did not respond to the summons issued by SEBI), further information was sought from the onward borrower entities to whom the aforesaid GPCL Borrower entities had onward lent/transferred the borrowed funds received by them from RHFL. Besides the aforesaid, various other details including information like minutes of Audit Committee Meeting etc., were also sought from RHFL.

12. The crucial facts that have emanated from the examination of the aforesaid documents/information and replies received in course of the investigation with respect to the aforesaid 45 GPCL Borrower entities including the top 13 Borrowers and their onward loan transactions, which are relevant for the present proceedings are highlighted in the following paras.

13. It is noted that the responses of the 13 GPCL Borrower entities reflected that an amount of INR 824.60 Crore extended to them as GPCL has not been accounted for by RHFL in its submissions made to SEBI. The said revelation enhanced the total GPCL to INR 9295.25 Crore (INR 8470.65 Crore as mentioned in Table no. 10 above + INR 824.60 Crore). The details of such unaccounted disbursements are mentioned in the table below:

Table no. 11

Sr. No.	Borrower Entity Name	Date	Loan Amount (INR Cr.)
1	Medybiz Private Limited	10-Oct-18	40.00
2		08-Aug-18	50.00

		09-Aug-18	43.48
		10-Aug-18	51.12
	Adhar Project Management and Consultancy Private Limited	06-Sep-18	45.00
		04-Oct-18	25.00
		27-Apr-18#	100.00
3	Mohanbir Hi-Tech Build Private Limited	19-Sep-18	70.00
4	Indian Agri Services Private Limited	18-Apr-18	200.00
		12-Jul-18	100.00
5	Gamesa Investment Management Private Limited	06-Nov-18	100.00
	Total		824.60

Clarification for this loan was not sought from RHFL as the same was identified on the basis submission of the Borrower entity at a later stage.

14. When RHFL was confronted with the aforesaid suspected unaccounted disbursements, it replied vide email/letter dated December 23, 2021 that since these amounts were repaid during the year of disbursement itself (2018-19), details of the same were not provided vide its earlier communication dated December 01, 2020.

15. The aforesaid revelation, therefore, indicates that the actual total disbursement under GPCL during the investigation period was INR 9295.25 Crore (INR 8470.65 Crore+ INR 824.60 Crore). The said amount was extended to 45 GPCL Borrower entities, in which the share of top 14 GPCL Borrower entities aggregated to INR 5208.23 Crore² (INR 4383.62 Crore+ INR 824.60 Crore, as referred in Table no. 10 and 11). However, as stated in the beginning of this order, one entity out of the said top 14 entities viz. Vinayak Ventures Private Limited did not respond to the summons issued by SEBI, therefore, the factual findings and the analysis of the alleged fraudulent lending activities of RHFL are primarily based on the responses received by the top 13 GPCL Borrower entities, who have been advanced the following GPC Loans during FY 2018-19:

² This includes an entry of INR 40 Crore (Approx.) as GPC Loan extended to Indian Agri (Noticee no. 6) by RHFL. In its submissions Indian Agri has stated the said amount was received in FY 2019-20, however, as per RHFL, the said loan was disbursed to them in the FY 2018-19. Accordingly, the total GPC Loans extended to the top 14 entities has been considered as INR 5,165.47 Crore.

Table no. 12

Sr. No.	Name of the GPCL Borrower entity	Amount of GPCL
1.	Adhar Project Management and Consultancy Pvt. Ltd. (Notice no. 6)	534.60
2.	Indian Agri Services Pvt. Ltd. (Notice no. 7)	693.00
3.	Phi Management Solutions Pvt. Ltd.(Notice no. 8)	430.00
4.	Arion Movie Productions Pvt. Ltd. (Notice no. 9)	400.00
5.	Citi Securities and Financial Services Pvt. Ltd. (Notice no. 10)	220.80
6.	Deep Industrial Finance Ltd. (Notice no. 11)	220.00
7.	Azalia Distribution Pvt. Ltd. (Notice no. 12)	386.50
8.	Gamesa Investment Management Pvt. Ltd.(Notice no. 14)	664.00
9.	Medybiz Pvt. Ltd. (Notice no. 15)	365.90
10.	Hirma Power Ltd. (Notice no. 16)	225.00
11.	Tulip Advisors Pvt. Ltd. (Notice no. 17)	215.00
12.	Mohanbir Hi-Tech Build Pvt. Ltd. (Notice no. 18)	375.00
13.	Netizen Engineering Pvt. Ltd. (Notice no. 19)	214.54
Total	13 GPCL borrower entities	INR 4,944.34 Crore

16. It is observed that apart from offering various loan products pertaining to Housing Finance, RHFL also had a policy for providing General Purpose Corporate Loan (GPCL) under the nomenclature of Demand/Call Loan. As approved by the Board of Directors of RHFL (vide Policy on Demand/ Call Loan Ref. No. RHF/CRT/MOP/112018/20.0, effective from November 01, 2018) such Demand/Call Loan carried certain broad features which postulated that:

- a) RHFL can extend such loans to its customers who do not have a fixed and structured income streams but have short term, temporary requirements for funds on a frequent basis.
- b) Demand/Call loans would be considered by the *Company* both under Secured loan as well as unsecured loan and the maximum period for a Demand/Call loans would normally be 12 months from the date of sanction of such loan.
- c) All such loans having stipulated a period beyond 6 months shall be subjected to review of performance not exceeding 6 months either on discrete or on a summary basis. Such Demand/Call loans shall not be renewed unless the periodical review has shown satisfactory performance/compliance with the terms of sanctions.
- d) GPCLs processed under the Branch Code of 'Corporate Branch' shall have a portfolio cap of INR 6750 Crore. Any deviation or any transaction beyond this threshold limit shall require confirmation by its Holding Company viz., Reliance Capital.

17. In terms of the Board Resolution passed by the Board of Directors of RHFL in the meeting held on April 24, 2017, Credit Authority Delegations (CADs) were approved, in terms of which loans upto INR 5.00 Crore was to be approved by the Specific Credit Hierarchy (upto National Credit Manager). Further, in respect of the loans greater than INR 5.00 Crore, the approving authority was the Credit Committee comprising of Chief Risk Officer (CRO), Chief Executive Officer (CEO) and One Director. It has been informed that during the Financial Year 2018-19, the members of the said Credit Committee were:

- a) Upto November 20, 2018 - Mr. Ravindra Sudhalkar (CEO), Mr. Amit Bapna (Director), Mr. Krishnan Gopalkrishnan (CRO).
- b) After November 20, 2018 - Mr. Ravindra Sudhalkar (CEO), Mr. Amit Bapna (Director), and Mr. Raj Kumar M (Head - Real Estate Credit & Credit Risk).

18. In terms of information submitted by RHFL, it had during the investigation period (FY 2018-19), disbursed 97 GPC loans amounting to INR 8470.65 Crore to 45 GPCL

Borrowers entities. The status of these loans as on November 30, 2020 as submitted by RHFL was as under:

Table no. 13: GPC loan status as on November 30, 2020

Classification	Number of Loan applications	Amount of Disbursement (INR Cr.)	No. of Unique GPCL Borrowers	Amount Outstanding as on November 30, 2020
Standard	32	3,153.30	16	2,920.50
NPA	63	5,165.05	27	3,858.51
Write-Off	2	152.30	2	152.30
Total	97	8,470.65	45	6,931.31

19. Further, the *Company* vide its letter dated November 24, 2021, provided updated information about the loan accounts, which is tabulated herein below:

Table no. 14: GPCL Classification as on September 30, 2021

Classification	No. of loan accounts	Amount of Disbursement (INR In Crore)
NPA	95	8,318.35
Write-off	2	152.30
Total	97	8,470.65

20. A conjoint reading of the aforesaid two tables would indicate the following:
- I. As per the claim of the *Company*, a total amount of INR 8,470.65 Crore was extended as GPC Loans to 45 unique entities in 97 different loan applications.
 - II. Only an amount of INR 2,920.50 Crore was considered as “Standard” in the books of accounts of RHFL, as on November 30, 2020 (Ref. Table no. 13 above)
 - III. Out of the total loans, two accounts for two entities have been written off which included an amount of INR 152.30 Crore (Table no. 13).
 - IV. Further, out of total 97 GPC Loans, 27 unique GPCL Borrower entities were given an amount of INR 5,165.05 under 63 different loan applications. As on November 30, 2020, out of the said amount of INR 5,165.05 Crore, an amount of INR **3,858.51 Crore** was still outstanding as due towards RHFL and due to the said fact, such 63

accounts (pertaining to amount of INR **5,165.05 Crore**) were declared as NPA. (Ref. Table no. 13 above).

- V. However, after passage of 10 months (i.e. as on September 30, 2021), RHFL has not recovered any further amount either from the loans which were earlier (as on November 30, 2020) stated to be Standard (INR 2,920.50 Crore) or from the outstanding amounts from the accounts declared as NPA (INR 3,858.51 Crore). Eventually, all the 95 Accounts (2 accounts out of 97 accounts were already written off from the books of RHFL), containing a total amount of INR 8,318.35 (Ref. Table no. 14 above) have been declared as NPA as on September 30, 2021.
- VI. The said fact shows that RHFL has not recovered any amount from such GPCL Borrower entities since November, 2020 and the total outstanding amount which was pending to be received by RHFL was INR **6,931.31 Crore**. (a sum total of Standard, NPA and write off amount as reflected under Table no. 13).
21. Additionally, it is also worthy to mention here that an amount of INR 160.50 Crore extended as GPCL to Crest Logistics and Engineers Pvt. Ltd. (*Noticee no. 20*) by RHFL has also been declared as NPA. The said company is a Promoter Group Entity, however, while furnishing information regarding GPCL to SEBI, RHFL has disclosed/classified the said entity as “Not Related party”, instead of providing the correct picture that the said company is a promoter group entity.
22. During the investigation, SEBI had sought copies of certain Loan Application Documents pertaining to the GPC loans. An analysis of such documents (total 70 Loan Application Documents for the loans amounting to INR 6187.78 Crore for GPCL disbursed in FY 2018-19) as furnished by RHFL to SEBI vide its letter dated December 23, 2021, has revealed the following facts:
- a) As many as 62 Loan Applications covering an amount of INR 5552.67 Crore (65.55% of INR 8470.65 Crore) were approved on the date of loan application itself, and 27 Loan Applications amounting to INR 1940.58 Crore (22.90% of INR

8470.65 Crore) were disbursed to the account of borrower entities on the date of the application itself.

- b) In the Credit Approval Memo (**CAM**) of loans amounting to INR 5850.19 Crore, deviations from due process have been recorded. The nature of various deviations so recorded in the CAMs are: Field Investigation waived, Probability of Default waived, eligibility criteria not as per the norms, no creation of security, no customer rating undertaken, escrow account not opened, etc. Further, the loan approval documentations were not properly executed and it has been noted that most of the loan application forms were left blank and the authorized signatories have merely signed on the last page of such application form (s).
- c) GPC Loans amounting to INR 4715.62 Crore (involving 56 applications) were approved by Credit Committee/Leadership Committee and out of the said loans, deviations as noted above, have been recorded by RHFL in the CAMs of as many as 50 such loans amounting to INR 4378.03 Crore. As stated earlier, senior key functionaries of the *Company* were entrusted with the task of approving loans involving amounts greater than INR 5.00 Crore, however, despite the constitution of the Credit Committee and even after recording deviations in the CAMs, serious aspects of the borrower entities like negative net worth, weak financials etc., have been completely overlooked and the loans have been sanctioned by the Credit Committee/Leadership Council, inspite of the aforesaid deviations and deficiencies in the financial conditions of the applicants.
- d) Furthermore, certain loans (14 cases) amounting to INR 1472.16 Crore were found to have been approved by the *Noticee no. 2* in the capacity of Chairman of Reliance ADA Group and similar deviations in the sanctioning process as highlighted above have been observed in all the CAMs of all such loans. The aforesaid observations as noted from the examination of the loan documents in respect of 70 Loan Applications, furnished by the *Company* (RHFL) are being summarized in the following table:

Table no. 15: Summary of Loan Approvers and deviations recorded in CAM of GPC loans is as under:

Approver Details	No. of Loan Applications	Amount of Disbursement (INR Cr.)	Deviations Recorded In no. of Loan applications
Leadership Council/Credit Committee	56	4715.62	50
Chairman of Reliance ADA Group (Noticee no. 2)	14	1472.16	14
Total	70	6187.78	64

23. Further, it is noticed that out of 45 unique GPCL borrower entities, 41 entities were such, each of which was sharing common addresses with at least one of such other borrower entities. In fact, all such 41 entities are found to be located at 8 such common addresses in Mumbai. Few of such entities were also sharing common email addresses. The total amount extended as GPCL to these 41 entities was around INR 7,822.90 Crore (92.35% of total amount of GPCL of INR 8470.65 Crore), and the details of such common addresses have been highlighted in row **A to H** in the table below, while the details of common email address are mentioned in the subsequent table:

Table No. 16– (GPCL borrowers having same addresses)

Sr. No.	Name of GPCL Borrower entities	Amount of GPCL (In INR Crore)
1.	Deep Industrial Finance Limited	220.00
2.	Neptune Steel Strips Limited	102.50
3.	Pearl Housing Finance India Limited	200.00
4.	Traitrya Construction Finance Limited	185.00
5.	Valuecorp Securities and Finance Limited	118.49
6.	Vishvakarma Equipment Finance (India) Limited	200.00
7.	CITI Securities and Financial Services Pvt. Ltd.	220.80
A	Common Address : 24/26, Cama Building, 1st Floor, Dalal Street, Fort, Mumbai	
8.	RPL Solar Power Pvt. Ltd.	85.00
9.	RPL Star Power Pvt. Ltd.	100.00
10.	RPL Sunlight Power Pvt. Ltd.	47.00
11.	RPL Surya Power Pvt. Ltd.	64.00

B	Common Address: 502, Plot No. 91/94, Prabhat Colony, Santa Cruz East, Mumbai	
12.	Adhar Project Management and Consultancy Pvt.	220.00
13.	Gamesa Investment Management Pvt. Ltd.	564.21
14.	Medybiz Pvt. Ltd.	325.90
15.	Netizen Engineering Pvt. Ltd.	214.54
16.	Phi Management Solutions Pvt. Ltd.	430.00
17.	Adhar Property Consultancy Pvt. Ltd.	189.20
18.	Adhar Real Estate Consultancy Pvt. Ltd.	202.40
19.	Nationwide Communication Pvt. Ltd.	175.00
C	Common Address: 6th Floor, Manek Mahal, 90 Veer Nariman Road, Mumbai	
20.	Skyline Global Trade Pvt. Ltd.	91.00
21.	Space Trade Enterprises Pvt. Ltd.	136.612
22.	Species Commerce and Trade Pvt. Ltd.	121.00
23.	Crest Logistics and Engineers Pvt. Ltd.	160.50
24.	Hirma Power Limited	225.00
25.	Jayamkondam Power Limited	104.00
26.	Summit Ceminfra Pvt. Ltd.	83.00
27.	Tulip Advisors Pvt. Ltd.	215.00
28.	Worldcom Solutions Limited	50.00
D	Common Address: 7th Floor, Raheja Point I, Jawaharlal Nehru Nagar, Vakola Market, Santa Cruz East, Mumbai	
29.	Accura Productions Pvt. Ltd.	186.74
30.	Arion Movie Productions Pvt. Ltd.	402.39
31.	Celebrita Mediahouse Pvt. Ltd.	210.00
32.	Edrishti Movies Pvt. Ltd.	200.96
33.	Ippy Entertainment Pvt. Ltd.	196.33
34.	Pifiniti Movies Pvt. Ltd.	188.66
35.	Wallace Movies and Entertainment Pvt. Ltd.	178.41
E	Common Address: 8th Floor, 803/804, Lotus Grandeur, Veera Desai Road, Andheri West, Mumbai	
36.	Indian Agri Services Pvt. Ltd.	433.15
37.	Mohanbir Hi-Tech Build Pvt. Ltd.	305.00
F	Common Address: Dev House, 260-261, Tribhuvan Complex, Ishwar Nagar, New Friends Colony New Delhi	
38.	Reliance Cleangen Limited	40.48
39.	Vinayak Ventures Pvt. Ltd.	221.13
G	Common Address: H Block, 1st Floor, Dhurubhai Ambani Knowledge City, Kopar Khairane, Navi Mumbai	
40.	Kunjibhari Developers Pvt. Ltd.	70.00
41.	RPL Aditya Power Pvt. Ltd.	139.50
H	Common Address: Plot Bearing CTS No. C/1361 B1/1 of at Pali Hill, Bandra West, Mumbai	
Total	41 entities	7822.90

(Source: Reply of RHFL to SEBI dated December 01, 2020)

Table no. 17

Sr. No.	Registered email ID	Details of GPCL Borrower entity
1	adhar.project@gmail.com	Entities at serial no. 12, 13 and 37 in Table no. 16
2	taxcompliance2022@gmail.com	Entities at serial no. 31, 32 and 33 in Table no. 16
3	vijayakar@vbdesai.com	Entities at serial no. 1, 2, 3, 4, 5, 6 and 7 in Table no. 16

24. The investigation has further brought to light that some of the GPCL Borrower entities, and the entities to whom funds were lent onward by such borrower entities, were enjoying the same address. The details of such connected companies (GPCL Borrower entities and onward borrower entities) found in common addresses are captured in the table below:

Table no 18.: Common address and email id

Common Address	GPCL Borrower entities	Onward Borrowers
Manek Mahal, 6th Floor, 90 Veer Nariman Road, Mumbai Mumbai City MH 400020 IN	1. Adhar Project Management & Consultancy Pvt. Ltd. 2. Gamesa Investment Management Pvt. Ltd. 3. Medybiz Pvt. Ltd. 4. Netizen Engineering Pvt. Ltd. 5. Phi Management Solutions Pvt. Ltd.	1. Reliance Business Broadcast News Holding Ltd. 2. Reliance Unicorn Enterprises Pvt. Ltd.
"Raheja Point Wing B, 7th Floor, Nehru Rd. Nr Shamrao Vithal Bank, Vakola, Santacruz (East) Mumbai - 400 055"	1. Tulip Advisors Private Limited 2. Hirma Power Limited	1. Crest Logistics and Engineers Pvt. Ltd.

25. This apart, it is also noted during the investigation that GPCL borrowers and the onward borrower entities are having same persons as Directors on their respective Boards, details of a few such instances are furnished herein below:

Table no. 19: Common directorships

Name of the Director	GPCL Borrower	Onward Borrowers
Ashok Kumar Ramnivas Thalia	1. Hirma Power Limited 2. Medybiz Private Limited 3. Tulip Advisors Private Limited	1. Jayamkondam Power Limited 2. Skyline Global Trade Private Limited

		3. Space Trade Enterprises Private Limited
Basant Kumar Vijay Singh Varma	1. Adhar Project Management & Consultancy Private Limited 2. Indian Agri Services Private Limited 3. Phi Management Solutions Private Limited	*
Ekta Yadav	1. Mohanbir Hi-Tech Build Private Limited	1. Adhar Property Consultancy Private Limited 2. Reliance Alpha Services Private Limited 3. Reliance Entertainment Networks Private Limited (Formerly Reliance Land Private Limited) 4. Reliance Venture Asset Management Private Limited
Laxminarayan Ramlal Sharma	1. Arion Movie 2. Hirma Power Limited	1. Jayamkondam Power Limited 2. Reliance Value Services Private Limited
Mayank Chimanbhai Padiya	1. Hirma Power Limited 2. Tulip Advisors Private Limited 3. Vinayak Ventures Private Limited	1. Skyline Global Trade Private Limited 2. Space Trade Enterprises Private Limited
Narendra Laxminarayan Sharma	1. Azalia Distribution Private Limited 2. Gamesa Investment Management Private Limited	
Nishant Sinha	1. Netizen Engineering Private Limited	2. Sapphire Cable & Services Private Limited
Sachin Seth	1. Adhar Project Management & Consultancy Private Limited 2. Gamesa Investment Management Private Limited 3. Indian Agri Services Private Limited 4. Medybiz Private Limited 5. Phi Management Solutions Private Limited	1. Adhar Property Consultancy Private Limited 2. Adhar Real Estate Consultancy Private Limited 3. Reliance Alpha Services Private Limited 4. Reliance Entertainment Networks Private Limited (Formerly Reliance Land Private Limited) 5. Reliance Value Services Private Limited

(Source: MCA Website and information submitted by above-mentioned entities to SEBI)

* Indian Agri Services Private Limited and Phi Management Solutions Private Limited, both have received GPCL from RHFL. Further, the amount of INR 20 Crore as received by Indian Agri Services Private Limited from RHFL on November 05, 2018, was transferred to Phi Management Solutions Private Limited making it as an onward borrower also. In a similar transaction, Phi Management Solutions Private Limited has onward lent INR 100 Crore to Indian Agri Services Private Limited on October 12, 2018, after taking the same from RHFL as GPCL.

26. Apart from the common directorship, it is noted from the statement of certain Directors recorded under oath during the investigation that few of such Directors of the GPCL Borrower entities are past/current employees of Reliance ADA Group itself. The details of some such Directors are enumerated below:

Table no. 20

Sr. No.	Name of the person	Current Directorships	Joining Date	Recommended for appointment by	Other Employment
1	Basant Verma	Adhar Project Mgt. & Consultancy Pvt. Ltd.	22/01/2020	Satish Kadakia (also Director in Phi Mgt & Reliance Unicorn)	CFO at Reliance Media Works Ltd.
		Reliance Unicorn Enterprises Pvt. Ltd.	22/01/2020		
		Phi Manangement Solutions Private Limited	29/09/2019		
		Indian Agri services Pvt. Ltd.	17/12/2018		
2	Ramakant Govale	Arion Movie Productions Private Limited	27/11/2018	Mr. Ambar Basu (Director of Reliance Big Entertainment Pvt. Ltd.)	Director at Zapak Mobile Games Pvt. Ltd. (Subsidiary of Reliance Big Entertainment Pvt. Ltd.)
3	Sachin Madhusudan Seth	Medybiz Pvt. Ltd.	30/10/2020	Basant Verma (CFO of reliance Media Works Ltd.)	Senior executive Finance in Reliance Media Works Ltd.
		Gamesa Investment Management Pvt. Ltd	30/10/2020		
4	Ekta Yadav	Mohanbir Hi-tech Build Pvt. Ltd.	30/10/2020	Basant Verma (CFO of reliance Media Works Ltd.)	Employee at Reliance Media Works Ltd.
		Reliance Venture Asset Management Pvt. Ltd.	30/10/2020		

27. It is also noted that certain GPCL Borrower entities have cross shareholding amongst themselves, details of which have been captured in the following table:

Table no. 21

Details of Shareholding of GPCL Borrowers

Name of Shareholder	Aadhar Project Mgt. Pvt. Ltd. (%)	Azalia Distribution Pvt. Ltd. (%)	Gamesa Investment Mgt. Pvt. Ltd. (%)	Hirma Power Ltd. (%)	Indian Agri Services Pvt. Ltd. (%)	Medyb iz Pvt. Ltd. (%)	Mohan bir Hi-Tech Build Pvt. Ltd. (%)	Phi Mgt. Solutions Pvt. Ltd. (%)
Reliance Entertainment Networks Pvt. Ltd. (formerly Reliance Land Pvt. Ltd.)	18	-	-	-	12.34	-	-	-
Reliance Alpha Services Pvt. Ltd.	26	-	-	-	40.74	-	-	40
Reliance Venture Asset Mgt. Pvt. Ltd.	18	-	-	-	-	-	-	-
Reliance Financial Advisory Services Ltd.	19	-	-	-	23.46	-	-	-
Indian Agri Services Pvt. Ltd.	19	-	-	-	-	-	-	-
Vrushvik Broadcast Pvt. Ltd.	-	75	-	-	-	-	-	-
Reliance Big Broadcasting Pvt. Ltd.	-	25	-	-	-	-	-	-
Aadhar Project Mgt. Pvt. Ltd.	-	-	99.99	-	23.46	-	99.99	-
Jayamkondam Power Ltd.	-	-	-	99.99	-	-	-	-
Reliance Interactive Advisors Pvt. Ltd.	-	-	-	-	-	99.96	-	-
Reliance Value Services Pvt. Ltd.	-	-	-	-	-	-	-	50
Phi Capital Services LLP	-	-	-	-	-	-	-	10
Total	100	100	99.99	99.99	100	99.96	99.99	100

28. It is a matter of record that GPCL as the name suggests, has been extended for general corporate purpose and even in the loan documents, the said entities have mentioned that the purpose of the loan applied for is to meet their working capital

requirement. It is however noticed that none of the aforesaid 13 borrower entities was involved in any business of ‘financial activities’ and their Memorandum of Association or their Financial statements do not indicate that these entities were undertaking any business activities of financing or financial services, so as to justify the usage of GPCL (received from RHFL) as working capital for onward lending to another entity. However, out of INR 4,944.34 Crore (including unaccounted disbursements of INR 824.60 Crore) (as stated earlier in Table no. 12) lent by RHFL to these 13 entities, it is noticed the said entities have onward lent around INR 4,533.43 Crore (i.e. around 91.69% of the funds were onward lent), giving a *prima facie* inference that those borrower entities did not have any actual corporate purpose for borrowing from RHFL nor did RHFL make any genuine evaluation of the corporate purposes for which such loans were advanced to such entities as GPCL. The details of such onward lending made by the GPCL Borrower entities of RHFL are tabulated herein below:

Table no. 22

Sr. no.	Disbursal Date	GPCL Borrower Entity	Amount (INR Cr.)	Date of onward lending	Onward Borrower Entity	Amount (INR Cr.)	Percentage of Onward Lending
1.	27-Apr-18	Adhar Project Management & Consultancy Pvt. Ltd.	100.00	27-Apr-18	Reliance Unicorn Enterprises Pvt. Ltd.	19.00	100.00%
2.				27-Apr-18	Crest Logistics and Engineers Pvt. Ltd.	15.10	
3.				27-Apr-18	Reliance Capital Ltd.	65.90	
4.	23-Jul-18	Adhar Project Management & Consultancy Pvt. Ltd.	25.00	23-Jul-18	Reliance Capital Ltd.	25.00	100.00%
5.	08-Aug-18	Adhar Project Management & Consultancy Pvt. Ltd.	50.00	08-Aug-18	Reliance Capital Ltd.	50.00	100.00%
6.	09-Aug-18	Adhar Project Management & Consultancy Pvt. Ltd.	43.48	09-Aug-18	Reliance Big Entertainment Pvt Ltd	43.48	100.00%
7.	10-Aug-18	Adhar Project Management & Consultancy Pvt. Ltd.	51.12	10-Aug-18	Reliance Commercial Finance Ltd.	51.12	100.00%
8.	06-Sep-18	Adhar Project Management &	45.00	06-Sep-18	Reliance Big Entertainment Pvt Ltd	24.20	100.22%

Sr. no.	Disbursal Date	GPCL Borrower Entity	Amount (INR Cr.)	Date of onward lending	Onward Borrower Entity	Amount (INR Cr.)	Percentage of Onward Lending
9.		Consultancy Pvt. Ltd.		06-Sep-18	Reliance Capital Ltd.	20.90	
10.	04-Oct-18	Adhar Project Management & Consultancy Pvt. Ltd.	25.00	04-Oct-18	Reliance Capital Ltd.	25.00	100.00%
11.	30-Oct-18	Adhar Project Management & Consultancy Pvt. Ltd.	95.00	30-Oct-18	Crest Logistics and Engineers Pvt. Ltd.	95.00	100.00%
12.	01-Mar-19	Adhar Project Management & Consultancy Pvt. Ltd.	100.00	01-Mar-19	Reliance Commercial Finance Ltd.	100.00	100.00%
13.	11-Dec-18	Arion Movie Production Pvt. Ltd.	200.00	11-Dec-18	Reliance Broadcast	200.00	100.00%
14.	25-Mar-19	Arion Movie Production Pvt. Ltd.	200.00	25-Mar-19	Reliance Commercial Finance Ltd.	200.00	100.00%
15.	19-Oct-18	Azalia Distribution Pvt. Ltd.	121.50	19-Oct-18	Reliance Broadcast Network Limited	0.30	0.25%
16.	05-Nov-18	Azalia Distribution Pvt. Ltd.	90.00	05-Nov-18	Reliance Broadcast Network Limited	0.20	0.22%
17.	25-Mar-19	Azalia Distribution Pvt. Ltd.	175.00	26-Mar-19	Hirma Power Limited	175.00	100.00%
18.	19-Mar-19	CITI Securities and Financial Services Pvt. Ltd.	220.80	19-Mar-19	Crest Logistics and Engineers Pvt. Ltd.	220.80	100.00%
19.	02-Mar-19	Deep Industrial Finance Limited	220.00	02-Mar-19	Reliance Commercial Finance Ltd.	220.00	100.00%
20.	18-Sep-18	Gamesa Investment Mgt. Pvt. Ltd.	200.00	18-Sep-18	Reliance Capital Ltd.	200.00	100.00%
21.	15-Oct-18	Gamesa Investment Mgt. Pvt. Ltd.	50.00	15-Oct-18	Reliance Capital Ltd.	50.00	100.00%
22.	30-Oct-18	Gamesa Investment Mgt. Pvt. Ltd.	55.00	30-Oct-18	Crest Logistics and Engineers Pvt. Ltd.	21.20	100.00%
23.				30-Oct-18	Reliance Broadcast Network Limited	22.00	
24.				30-Oct-18	Reliance Cleangen Limited	11.00	
25.				30-Oct-18	Reliance Unicorn Enterprises Pvt. Ltd.	0.80	
26.	06-Nov-18	Gamesa Investment Mgt. Pvt. Ltd.	100.00	06-Nov-18	Reliance Capital Ltd.	100.00	100.00%
27.	28-Feb-19	Gamesa Investment Mgt. Pvt. Ltd.	60.00	28-Feb-19	Reliance Commercial Finance Ltd.	60.00	100.00%

Sr. no.	Disbursal Date	GPCL Borrower Entity	Amount (INR Cr.)	Date of onward lending	Onward Borrower Entity	Amount (INR Cr.)	Percentage of Onward Lending
28.	01-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	20.00	01-Mar-19	Reliance Commercial Finance Ltd.	20.00	100.00%
29.	13-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	35.00	13-Mar-19	Reliance Capital Ltd.	20.27	100.00%
30.				13-Mar-19	Reliance Exchangenext Limited	14.73	
31.	18-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	144.00	18-Mar-19	Reliance Commercial Finance Ltd.	144.00	100.00%
32.	29-May-18	Hirma Power Limited	50.00	29-May-18	Crest Logistics and Engineers Pvt. Ltd.	49.40	98.80%
33.	22-Mar-19	Hirma Power Limited	175.00	22-Mar-19	Crest Logistics and Engineers Pvt. Ltd.	175.00	100.00%
34.	18-Apr-18	Indian Agri Services Pvt. Ltd.	200.00	18-Apr-18	Reliance Capital Ltd.	200.00	100.00%
35.	12-Jul-18	Indian Agri Services Pvt. Ltd.	100.00	12-Jul-18	Reliance Commercial Finance Ltd.	100.00	100.00%
36.	20-Aug-18	Indian Agri Services Pvt. Ltd.	100.00	20-Aug-18	Reliance Capital Ltd.	100.00	100.00%
37.	06-Sep-18	Indian Agri Services Pvt. Ltd.	198.00	06-Sep-18	Reliance Business Broadcasr News Holding Ltd.	198.00	100.00%
38.	05-Nov-18	Indian Agri Services Pvt. Ltd.	20.00	05-Nov-18	Phi Management Solutions Pvt. Ltd.	20.00	100.00%
39.	01-Mar-19	Indian Agri Services Pvt. Ltd.	50.00	01-Mar-19	Reliance Commercial Finance Ltd.	50.00	100.00%
40.	13-Mar-19	Indian Agri Services Pvt. Ltd.	25.00	13-Mar-19	Reliance Capital Ltd.	25.00	100.00%
41.	10-Sep-18	Medybiz Private Limited	150.00	10-Sep-18	Reliance Capital Ltd.	150.00	100.00%
42.	10-Oct-18	Medybiz Private Limited	40.00	10-Oct-18	Reliance Capital Ltd.	40.00	100.00%
43.	12-Oct-18	Medybiz Private Limited	100.00	12-Oct-18	Adhar Project Management & Consultancy Pvt. Ltd.	100.00	100.00%
44.	19-Nov-18	Medybiz Private Limited	75.90	19-Nov-18	Reliance Unicorn Enterprises Pvt. Ltd.	75.90	100.00%
45.	10-Sep-18	Mohanbir Hi-Tech Build Private Limited	80.00	10-Sep-18	Reliance Capital Ltd.	80.00	100.00%
46.	19-Sep-18	Mohanbir Hi-Tech Build Private Limited	70.00	19-Sep-18	Reliance Capital Ltd.	70.00	100.00%
47.	14-Nov-18	Mohanbir Hi-Tech Build Private Limited	200.00	14-Nov-18	Reliance Unicorn Enterprises Pvt. Ltd.	200.00	100.00%

Sr. no.	Disbursal Date	GPCL Borrower Entity	Amount (INR Cr.)	Date of onward lending	Onward Borrower Entity	Amount (INR Cr.)	Percentage of Onward Lending
48.	18-Mar-19	Mohanbir Hi-Tech Build Private Limited	25.00	18-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	25.00	100.00%
49.	21-Dec-18	Netizen Engineering Pvt. Ltd.	32.38	NA	NA	-	0.00%
50.	18-Dec-18	Netizen Engineering Pvt. Ltd.	50.60	NA	NA	-	0.00%
51.	20-Dec-18	Netizen Engineering Pvt. Ltd.	80.96	NA	NA	-	0.00%
52.	28-Dec-18	Netizen Engineering Pvt. Ltd.	50.60	28-Dec-18	Reliance Commercial Finance Ltd.	17.66	34.90%
53.	19-Oct-18	Phi Management Solutions Pvt. Ltd.	210.00	19-Oct-18	Reliance Capital Ltd.	210.00	100.00%
54.	12-Oct-18	Phi Management Solutions Pvt. Ltd.	100.00	12-Oct-18	Gamesa Investment Mgt. Pvt. Ltd.	100.00	100.00%
55.	12-Oct-18	Phi Management Solutions Pvt. Ltd.	100.00	12-Oct-18	Indian Agri Services Pvt. Ltd.	100.00	100.00%
56.	14-Nov-18	Phi Management Solutions Pvt. Ltd.	20.00	14-Nov-18	Reliance Unicorn Enterprises Pvt. Ltd.	20.00	100.00%
57.	29-May-18	Tulip Advisors Pvt. Ltd.	60.00	29-May-18	Crest Logistics and Engineers Pvt. Ltd.	59.30	98.83%
58.	30-May-18	Tulip Advisors Pvt. Ltd.	100.00	30-May-18	Crest Logistics and Engineers Pvt. Ltd.	98.82	98.82%
59.	31-May-18	Tulip Advisors Pvt. Ltd.	55.00	31-May-18	Crest Logistics and Engineers Pvt. Ltd.	54.35	98.82%
	Total		4,944.34	Total		4,533.43	91.69%

29. Investigation further reveals that RHFL, had received INR 300 Crore on September 10, 2018 from ICICI Bank. However, out of the said amount, INR 230 Crore was transferred to two PILEs viz., INR 150 Crore to Medybiz Private Limited (*Noticee no. 15*) and INR 80 Crore to Mohanbir Hi Tech Build Private Limited (*Noticee no. 18*), and the said two Companies, in turn transferred the amounts so received to Reliance Capital Limited (*Noticee no. 28*), on the same day itself. Further, RHFL extended GPCL of INR 20 Crore on November 05, 2018 to a PILE³ i.e. Indian Agri Services Private Limited (*Noticee no. 7*) which extended the said amount to another PILE viz., Phi Management Solutions Pvt. Ltd

³ PILE and GPCL Borrower Entities have been interchangeably used in the present order and both the terms are referring to the entities who have taken General Purpose Corporate Loans from RHFL

(Noticee no. 8). Similarly, on March 18, 2019, an amount of INR 25 Crore was extended by RHFL to another PILE i.e. Mohanbir HI Tech Build Private Limited (Noticee no. 18). The said Noticee no. 18 transferred that amount of INR 25 Crore to Gamesa Investment Management Private Limited (Noticee no. 14). The ultimate recipients of the funds viz., Noticee no. 8 and Noticee no. 14 transferred the said amounts back to RHFL, i.e., the *Company* from where such amounts had originated. The chain of events governing such transactions indicates that RHFL in connivance with the GPCL borrower entities was involved in ever-greening of its GPC lending business.

30. Thus, the investigation reveals that out of the total amount of GPCL of INR 4,944.34 Crore received by the aforesaid 13 entities, the major portion amounting to INR 4,533.43 Crore (91.69% of the total GPCL) was lent onward by such borrower entities. In around 40 instances of such onward lending (shaded in blue at Serial no. 1, 2, 3, 4 etc. in the Table no. 22 above), the amount that was lent onwards was 100% of the amount, which was lent by RHFL to the GPCL Borrower entities while in many other instances, the said amount of onward transfer was more than 98% of the total amount received from RHFL. Further, in 54 instances, such onward lending was done on the same date (dated highlighted in green shade in the Table above) by the borrower entities.

31. Apart from the aforesaid crucial findings, it is also noticed that out of 70 GPC loan documents furnished by RHFL, as many as 62 Loan Applications amounting to INR 5552.67 Crore (65.55% of INR 8470.65 Crore) have been promptly approved on the date of application of such loans itself. Further, in 27 instances, loan amounts aggregating to INR 1940.58 Crore (22.91% of INR 8470.65 Crore) were both approved and disbursed on the same date on which the applications for availing loans were made by the GPCL Borrower entities. The details of such cases are as under:

Table no. 23

Date of Application	Name of the Borrower	Amount of Disbursement (INR Cr.)	Date of disbursal
29/03/2019	Summit Ceminfra Private Limited	32.00	29/03/2019
28/02/2019	Gamesa Investment Management Private Limited	60.00	28/02/2019
28/12/2018	Netizen Engineering Private Limited	50.60	28/12/2018
29/10/2018	Azalia Distribution Private Limited	121.50	29/10/2018
18/10/2018	Gamesa Investment Management Private Limited	50.00	18/10/2018
01/10/2018	Crest Logistics And Engineers Private Limited	11.00	01/10/2018
19/09/2018	Phi Management Solutions Private Limited	210.00	19/09/2018
19/09/2018	Gamesa Investment Management Private Limited	200.00	19/09/2018
12/09/2018	Reliance Cleangen Limited	40.48	12/09/2018
11/09/2018	Mohanbir Hi-Tech Build Private Limited	80.00	11/09/2018
11/09/2018	Medybiz Private Limited	150.00	11/09/2018
24/08/2018	Rpl Star Power Private Limited	50.00	24/08/2018
23/08/2018	Rpl Sunlight Power Private Limited	47.00	23/08/2018
22/08/2018	Rpl Star Power Private Limited	50.00	22/08/2018
22/08/2018	Rpl Solar Power Private Limited	50.00	22/08/2018
22/08/2018	Worldcom Solutions Limited	50.00	22/08/2018
22/08/2018	Species Commerce And Trade Private Limited	50.00	22/08/2018
20/08/2018	Indian Agri Services Private Limited	100.00	20/08/2018
09/08/2018	Rpl Surya Power Private Limited	64.00	09/08/2018
08/08/2018	Crest Logistics And Engineers Private Limited	42.00	08/08/2018
24/07/2018	Adhar Project Management And Consultancy Private Limited	25.00	24/07/2018
31/05/2018	Species Commerce And Trade Private Limited	71.00	31/05/2018
31/05/2018	Tulip Advisors Private Limited	55.00	31/05/2018
31/05/2018	Skyline Global Trade Private Limited	71.00	31/05/2018
30/05/2018	Tulip Advisors Private Limited	100.00	30/05/2018
29/05/2018	Tulip Advisors Private Limited	60.00	29/05/2018
29/05/2018	Hirma Power Limited	50.00	29/05/2018
	Total	1,940.58	

Except first two loans, all the loans were approved by the Credit Committee

32. In this respect, it is noticed that the act of processing of loan application on the date of the application itself or within one day of receipt of application as well as the disbursal of the loan amounts on the same day of application and approval, explicitly displaying such undue haste and abnormal alacrity is indicative of the fact that RFHL may not have paid due regard to even the basic minimum due diligence process like document verification, credit evaluation, which are essentially expected to be performed for any loan applications received by any Housing Finance Company, but in the aforementioned instances, *prima*

facie, such procedures were knowingly ignored and apparently not enough time was devoted by RHFL to take care of the basic due diligence and due processes in such cases. The aforesaid instances of apparently blatant irregularities in the processing of loans involving huge amounts, when read with the fact that loans instances cited at Serial no. 1, 2, 3, 7, 8 etc., in the above table no. 22 (collectively amounting to INR 4214.43 Crore), have been promptly lent onwards to promoter related entities on the same date of receipt, in the manner as have been elaborated above, give rise to a strong *prima facie* belief that the afore-stated financial transactions were not carried out by RHFL in due compliance with the procedures & processes established by its own board in letter & spirit as ordinarily expected to be followed by any prudent financing company. Therefore, such loan transactions cannot be termed as normal commercial transactions carried out in the course of normal lending business of the company. Rather, instances of such murky loan transactions between RHFL and the aforesaid borrowing entities who in turn have visibly acted as conduits to onward transfer those loan funds to promoter related entities, strongly indicate that the above transactions were executed with a *malafide* & deceitful intent which cannot be said to be in the best interest of the shareholders of RHFL or in the interest of the investors of securities market at large.

33. As already pointed out from the reports of the Forensic Auditors, that on certain occasions RHFL has also disbursed loans even before such loans were sanctioned, one such loan as found by SEBI in its investigation has been mentioned in the Table no. 24 below. Such an act on the part of RHFL not only shows that RHFL has deliberately ignored and omitted to follow the basic cannons of loan application evaluation exercise and documentation/ due diligence processes, but also has *ex-post facto* documented such loan which has been already disbursed prior to the actual receipt of loan application, thereby blatantly deviating from the normal conduct of a Housing Finance Company in the matter of disbursing loans to its borrower entities. Further, when one examines the poor financial conditions and business status of those companies (highlighted in the Table no. 25 presented below) to whom such loans were extended, it becomes clear that these borrower

entities did not even possess any financial strength or viability so as to deserve any loans from any financing company in normal course, leave alone disbursement of loans prior to receiving loan application from one of them.

Table no. 24

Sr. No.	Name of the borrower	Amount Disbursed (INR Cr.)	Date of Sanction letter	Date of disbursement as per bank statement	Difference (no. of days)
1	Aadhar Project Management And Consultancy Pvt. Ltd.	100	30-Apr-18	27-Apr-18	3

Table no. 25: Financial Position of the 13 GPCL Borrowers entities

All amounts in INR Cr.

Name of the Borrower	Revenues			Profit			Operating Cash flows			Total Assets			Tangible Assets			Net Worth			Loan disbursed by RHFL in FY 2018-19	Loan repaid in FY 2018-19
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18		
Gamesa Investment Management Pvt. Ltd	-	-	0.04	(0.01)	0.00	(4.17)	0.00	0.00	0.00	0.00	0.00	128.70	51.63	51.63	51.63	0.00	0.00	(4.18)	664.00	496.00
Indian Agri Services Pvt. Ltd.	2.43	-	0.42	(1.22)	(1.41)	0.00	0.19	(0.15)	-	11.02	12.61	47.41	-	-	-	(2.48)	(3.89)	24.75	733.00	607.00
Phi Management Solutions Pvt. Ltd.	19.85	0.01	0.42	2.30	0.00	0.00	0.18	(2.23)		47.37	47.37	47.41	-	-	-	28.77	28.77	24.75	430.00	222.00
Azalia Distribution Pvt. Ltd.	0.19	0.32	0.13	-0.19	(0.33)	(0.09)	(0.09)	0.13	(0.03)	0.63	0.44	0.32	-	-	-	0.22	(0.10)	(0.19)	386.50	211.00
Mohanbir Hi-Tech Build Pvt. Ltd.	-	-	5.19	0.00	-0.00	(1.15)	(22.06)	0.00	(80.67)	0.01	0.00	208.11	22.06	22.06	21.86	0.00	0.00	(1.15)	375.00	203.50
Hirma Power Ltd.	0.04	0.04	41.25	(0.02)	0.01	0.22	(0.01)	(0.05)	(349.95)	0.25	0.29	370.22	-	-	-	(0.40)	(0.38)	(0.16)	225.00	15.00
Arion Movie Productions Pvt. Ltd.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	402.39	214.89
Citi Securities And Financial Services Pvt. Ltd.	0.15	0.03	0.03	(0.19)	0.00	(0.01)				0.33	0.38	0.32	0.33	0.38	0.32	0.33	0.39	0.32	220.80	0.00

Adhar Project Management And Consultancy Pvt. Ltd.	0.00	0.01	0.42	(2.14)	(9.65)	(8.60)	0.18	2.50	0.77	27.01	21.53	52.79	-	-	-	(2.49)	(12.14)	(20.76)	534.60	589.41
Deep Industrial Finance Ltd.	0.00	0.10	11.46	(0.22)	(0.45)	(0.17)				44.02	44.01	313.75	44.02	44.01	313.75	15.87	15.42	15.19	220.00	0.00
Tulip Advisors Pvt. Ltd.	0.00	0.02	0.06	0.00	0.00	0.00	-	-	-	0.22	0.23	0.22	-	-	-	0.22	0.22	0.22	215.00	13.00
Netizen Engineering Pvt. Ltd.	1497.39	1548.16	74.66	(1,321.28)	(287.36)	0.40	(1,519.28)	(1,363.01)	(1,395.46)	7756.18	7703.69	8072.65	-	-	-	(5364.82)	(5652.19)	(5651.79)	212.00	0.00
Medybiz Pvt. Ltd.	0.00	-	0.16	(0.83)	0.00	0.00	(0.02)	(0.01)	0.00	0.02	0.01	0.02	-	-	-	(1.70)	(6.65)	(6.65)	335.90	163.50

Source: Replies of GPCL borrower entities

34. From the above table no. 25, it is clear that all of the afore-listed GPCL Borrower entities (except for Adhar Project Management and Consultancy Private Limited, i.e. *Noticee no. 6*) were having nil or negative cash-flows. Even for the said exception viz., Adhar Project Management and Consultancy Private Limited (*Noticee no. 6*), the Cash-flow was merely INR 77 Lakh. It is not a case that the GPCL Borrower entities have hoodwinked the lender i.e., RHFL by providing any false financial statements, rather a high probability of defaults by such GPCL Borrowers entities has been evidently admitted in the CAM itself while processing such loans, thereby making it a glaring case of conscious knowledge on the part of the sanctioning authorities of RHFL as a lender who knew *ab initio* that these loan applications did not have any merit at all and that these loans are very likely going to be NPA soon after their disbursements and yet, for reasons best known to them and in complete disregards for any principles of corporate governance the *Company*, they went ahead and disbursed GPCL to these non-deserving entities. As the facts unfolded later on, out of an amount of INR 4944.34 Crore extended as GPC Loans to these companies (including unaccounted disbursals), a major portion amounting to INR 3104.76 Crore has already met its pre-determined fate of becoming NPA as on November 30, 2020.

35. It has also been observed during the course of investigation, primarily on the basis of information furnished by the GPCL borrowing entities, that certain amounts of loans

onward lent by the GPCL borrowing entities have been “shown to have been repaid” by the Onward borrower entities to the GPCL Borrower entities by issuing 0% Unsecured Optionally Convertible Debentures (OCDs). The details of such OCDs have been tabulated herein below:

Table no. 26: Details of Loans onward lent converted to 0% Unsecured Optionally Convertible Debentures (OCDs):

S. No.	Lending GPCL Borrower Company (Allottees)	Onward Borrower Company	Loan Amount repaid by borrower Company through OCDs	Date of Allotment	Details of Allotment and No. of Securities allotted
1	1) Mohanbir Hi-Tech Build Private Limited 2) Phi Management Solutions Private Limited	Indian Agri Services Private Ltd	1) 14,54,82,000 2) 84,55,83,000 Total: 99.11 Crore	1 st April 2019	Rs. 1000 per security: 1) 1,45,482 2) 8,45,583 Total: 9.91 lakh OCDs
2	1)Medybiz Private Limited	Adhar Project management & Consultancy Pvt Ltd	1) 53,28,00,000 Total: 53.28 Crore	1 st April 2019	Rs. 1000 per security: 1) 5,32,800 Total: 5.32 lakh OCDs
3	1) Adhar Project management & Consultancy Pvt Ltd 2) Gamesa Investment Management Pvt Ltd 3) Medybiz Private Limited 4) Mohanbir Hi-Tech Build Private Limited 5) Phi Management Solutions Private Limited 6) Reliance Alpha Services Private Limited 7) Reliance Venture Asset Management Private Limited	Reliance Unicorn Enterprises Pvt Ltd	1) 8,35,79,000 2) 1,10,80,00,000 3) 78,66,18,000 4) 1,59,59,00,000 5) 12,15,35,000 6) 3,73,60,00,000 7) 64,33,09,000 Total: 807.49 Crore	1 st April 2019	Rs. 1000 per security: 1) 83,579 2) 11,08,000 3) 7,86,618 4) 15,95,900 5) 1,21,535 6) 37,36,000 7) 6,43,309 Total: 80.75 lakh OCDs
4	1) Mohanbir Hi-Tech Build Private Limited 2) Phi Management Solutions Private Limited	Gamesa Investment Management Pvt Ltd	1) 13,42,30,000 2) 1,05,50,47,000 Total: 118.92 Crore	1 st April 2019	Rs. 1000 per security: 3) 1,34,230 4) 10,55,047 Total: 11.89 lakh OCDs

			Rs.1078.80 Crore		
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Source: Attachments provided by respective Companies in Form PAS-3

36. The aforesaid details would explain that certain entities who had availed loans from the GPCL Borrower entities, had discharged their loans liabilities in their books of accounts by the issuance of OCDs at the end of the financial year to such lender entities (GPCL Borrowers of RHFL). Such OCDs are unquoted instruments and by issuance of such OCDs, an accounting fiction has been created which shows discharge of dues towards the loans received by such onward borrower entities. However, it is surprising to note here that the amounts of loans that were initially lent by RHFL (which have been used by the GPCL Borrower entities to further lend and against which the OCDs have been issued to them), have been classified as NPA in the books of accounts of RHFL even if the GPCL Borrower entities are deemed to have recovered their loans from the ultimate onward borrower entities via issuances of OCDs, such a dubious method adopted for showing repayment of loans reinforces the fact that such OCDs were issued as a smokescreen to camouflage the misappropriation of such loan funds disbursed to such PILE/ promoter group entities by manufacturing such accounting fiction of discharge of liabilities through the route of OCDs, which is of no help to reduce the NPAs standing against these very loans in the books of RHFL .

37. RHFL has claimed before PWC that the afore-stated loans have been extended on the strength of the promoters/projects/collaterals etc., and that requisite charge over the said collaterals has been created in favour of RHFL and that there has been also guarantee back up of reputed listed companies, which *prima facie* shows that proper due diligence was carried out before parting loan to such borrowing entities. However, when the aforesaid claims of RHFL are verified with reference to the financials of those borrower entities, such claims are found to be blatantly specious, false and frivolous as is observed from the relevant records that the total assets of such borrower companies were substantially lower than the quantum of loans extended to them by RHFL. Further, there appears to be neither any back up corporate guarantee available on record to assure repayment of such loans (contrary to the claim of RHFL) as RHFL even till date has not invoked any such

Guarantee to recover its dues from such borrowers; nor the revenue and networth of those borrower companies were adequate enough to indicate possibility of any actual or anticipated streams of revenue to be generated from any ongoing business being carried out by these entities. Consequently, as anticipated, most of the loans advanced by RHFL have not been repaid by these GPCL borrower entities and an amount of INR 6931.31 Crore (as indicated in the Table no. 13) advanced to such 45 GPCL Borrower entities (out of total GPCL of INR 9295.25 Crore) have infact been declared as NPA by RHFL.

38. Further, the investigation has revealed that many of the entities to whom the funds were onward transferred/advanced by the GPCL borrower companies of RHFL, are found to be those entities which are related to the promoters of RHFL itself. In terms of the shareholding pattern filed by Reliance Capital Limited (the holding company of RHFL) for the quarter ended March 31, 2018, *Notice no.2* is one of the individual promoters of Reliance Capital Limited (RCL). Furthermore, in terms of the disclosures made in the Annual Reports of RHFL and RCL for the Financial Year 2018-19, the following entities are related to *Notice no.2*:

Table no. 27

Sr. No.	Name of the entity	Relationship to the promoters
1	Reliance Capital Limited(<i>Notice no. 28</i>)	Reliance Capital Limited is the holding company of RHFL and Mr. Anil D. Ambani is the individual promoter of Reliance Capital Limited and is disclosed to be “the person having significant influence during the year” on RCAP.
2	Reliance Commercial Finance Limited (<i>Notice no. 23</i>)	Reliance Commercial Finance Limited is the subsidiary of Reliance Capital Limited (as per annual report of RCAP for the year FY 2018-19) and hence, is a company under “significant influence” and indirect control of Mr. Anil D. Ambani.
3	Reliance Exchangenext Limited (<i>Notice no. 22</i>)	Reliance Exchangenext Limited is the subsidiary of Reliance Capital Limited (as per annual report of RCAP for the year FY 2018-19) and hence, is a company under “significant influence” and indirect control of Mr. Anil D. Ambani.
4	Reliance Big Entertainment Private Limited (<i>Notice no. 27</i>)	Reliance Big Entertainment Private Limited is disclosed as an enterprise over which Mr. Anil D. Ambani has significant influence as per the annual report of RCAP for the year FY 2018-19.

5	Reliance Cleangen Limited (Notice no. 24)	Reliance Cleangen Limited is disclosed as an enterprise over which Mr. Anil D. Ambani has significant influence as per the annual report of RCAP for the year FY 2018-19.
6	Reliance Unicorn Enterprises Private Limited (Notice no. 21)	Reliance Unicorn Enterprises Private Limited share common registered address with Reliance Business Broadcast News Holdings Limited
7	Reliance Business Broadcast News Holdings Limited (Notice no. 25)	Reliance Business Broadcast News Holdings Limited share common registered address with Reliance Unicorn Enterprises Private Limited. Common Directors with Reliance Commercial Finance Limited and Reliance Broadcast Network.
8	Reliance Broadcast Network Limited (Notice no. 26)	Reliance Broadcast Network Limited has common directors with RHFL, Reliance Commercial Finance Limited and Reliance Business Broadcast News Holdings Limited. BIG FM Is owned by Reliance Broadcast Network Limited which is a group company of Reliance ADAG.
9	Crest Logistics and Engineers Private Limited (Now Known as CLE PRIVATE LIMITED) (Notice no. 20)	This is a promoter group entity.

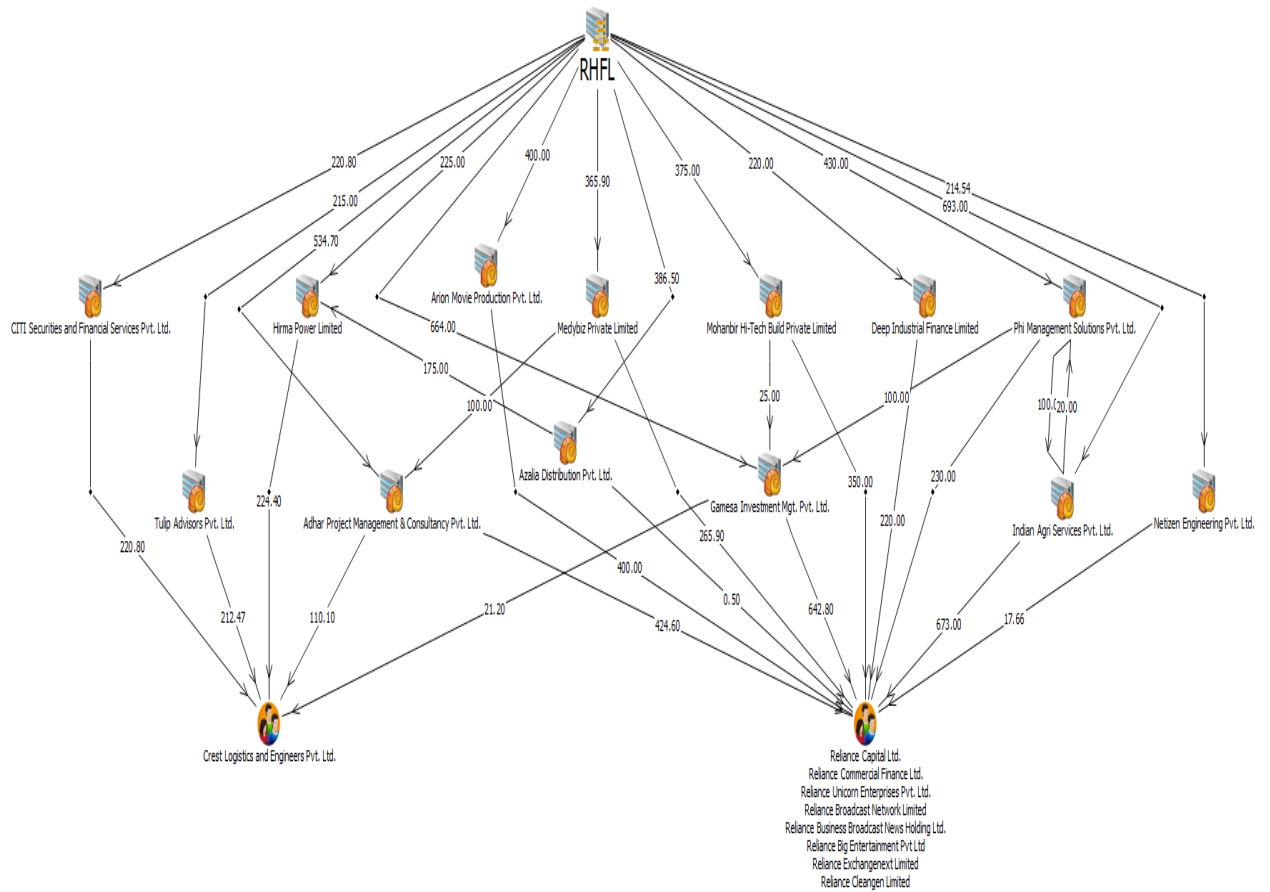
39. Based on the information provided by the borrower entities, it is observed that an amount of INR 4013.43 Crore received by the GPCL Borrower entities from RHFL has been onward lent to the aforesaid promoter related entities in the following manner:

Table no. 28

Name of the promoter-related entity (Onward borrower)	Amount (INR Cr.)
Reliance Capital Ltd.	1432.07
Reliance Commercial Finance Ltd.	962.78
Crest Logistics and Engineers Pvt. Ltd.	788.97
Reliance Unicorn Enterprises Pvt. Ltd.	315.7
Reliance Broadcast Network Limited	222.5
Reliance Business Broadcast News Holding Ltd.	198
Reliance Big Entertainment Pvt. Ltd.	67.68
Reliance Exchangenext Limited	14.73
Reliance Cleangen Limited	11
Total	4013.43

40. From the aforesaid details, it emerges that a major portion of GPC loans was extended by RHFL to GPCL Borrower companies only for the purpose of further transferring such loan amounts to promoter and promoter related entities. The purpose behind such layering of funds transfers under the garb of advancing GPCL *prima facie* appears to portray that the loans were being advanced to entities which are apparently neither connected to RHFL nor to any of its Directors/Promoters at the time of extension of such loan to such GPCL borrower entities. However, as already highlighted above with different illustrations, the ultimate beneficiaries of such loans are in fact Reliance Capital (*Noticee no.28*) and other promoter related entities.

41. The aforesaid factual revelations are sufficient enough to give rise to a *prima facie* observation that the GPCL borrower entities of RHFL were merely acting as conduits for the ulterior purpose of funneling funds to the entities which are related to the promoters of RHFL itself, who in fact turned out to be the ultimate beneficiaries of such funds originally remitted by RHFL, and the same can be better understood and appreciated from the following pictorial representation (which is also enclosed as an Annexure-A in the order):



42. In terms of the information furnished by RHFL vide its letter dated December 23, 2021, it (RHFL) has secured a total amount of Guarantee of INR 40.48 Crore from Reliance Power Limited and also a Guarantee for a total sum of INR 2020.48 Crore from Reliance Infrastructure Limited. Thus, as per RHFL, it had secured an aggregate amount of Corporate Guarantee of INR 2,060.72 Crore in respect of the following loans:

Table no. 29

Date of Guarantee Execution	Name of Borrower	Lender Name	Guarantor Name	Loan Amount (INR In Crore)
18/09/2019	Reliance Cleangen Ltd.	Reliance Home Finance Ltd.	Reliance Power Ltd.	40.48
08/08/2019	Jayamkondam Power Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	104.00
	Species Commerce and Trade Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	71.00
	Species Commerce and Trade Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	Tulip Advisors Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	60.00
	Tulip Advisors Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	Tulip Advisors Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	55.00
	Aashish Power Plant Equipment Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Solar Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Solar Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	RPL Solar Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	35.00
	RPL Star Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Star Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	RPL Star Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	RPL Surya Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Surya Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	64.00

	RPL Sunlight Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	47.00
	Hirma Power Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	Hirma Power Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	175.00
	Worldcom Solutions Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	Skyline Global Trade Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	71.00
	Skyline Global Trade Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	20.00
	Space Trade Enterprises Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	136.61
	Vinayak Ventures Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	11.13
	Vinayak Ventures Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	210.00
18/03/2019	Crest Logistics and Engineers Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	160.50
Total				2,060.72

43. Further, Reliance Infrastructure Limited has also reportedly executed Guarantees on behalf of certain onward borrowing entities against the loans extended by GPCL Borrower entities of RHFL, as indicated below:

Table no. 30

Date of Guarantee Execution	Name of Borrower	Lender Name	Guarantor Name	Loan Amount (INR In Crore)
06/09/2019	Reliance Business Broadcast News Holdings Limited	Aadhar Property Consultancy Private Limited	Reliance Infrastructure Limited	189.20
06/09/2019	Reliance Business Broadcast News Holdings Limited	Aadhar Real Estate Consultancy Private Limited	Reliance Infrastructure Limited	202.40
06/09/2019	Reliance Business Broadcast News Holdings Limited	Nationwide Communication Private Limited	Reliance Infrastructure Limited	175.00

20/03/2019	Crest Logistics and Engineers Private Limited	Azalia Distribution Private Limited	Reliance Infrastructure Limited	175.00
06/09/2019	Reliance Unicorn Enterprises Private Limited	Mohanbir Hitech Build Private Limited	Reliance Infrastructure Limited	168.00
Total				909.60

44. The details of Guarantees as listed out in the tables above indicate that both GPCL Borrowings as well as the onward borrowing were secured by the Guarantee given by Reliance ADA Group, and it is evident from the above that Reliance Power Limited (R-Power) and Reliance Infrastructure Limited (R-Infra) have together extended a total sum of Guarantee for an amount of INR 2,970.32 Crore. However, it is noted that details of such Guarantees given by the Group Companies itself in favour of different GPCL and onward borrower entities have not been disclosed in the Annual Reports of RHFL for the Financial Year 2018-19 and 2019-20. The aforesaid factual exposition further highlights the fact that most of the GPCL Borrower entities are also related to the same group only.

45. It is also noted during the investigation that the Board of Directors of RHFL had decided in its meeting held on February 11, 2019 *inter alia* as: “No further lending to the corporates that does not fall under the policy criteria of the company and loans shall be given only for retail home loan portfolio activities for long term purposes and to the builders for residential housing constructions and for all purposes as permitted by NHB for individual / retail residential lending.”. However, even after such a decision/direction of the Board of Directors, an amount of INR 2,2276.52 Crore was disbursed by RHFL towards 24 different loan applications. In terms of the loan documents submitted to SEBI, it has been noticed that 14 such loan applications (out of 24) involving an amount of INR 1472.16 Crore (approx.) were approved/sanctioned by Noticee no. 2 (as indicated in the Table no. 15) in his capacity as Chairman, ADA Group, inspite of the said decision of the Board of Directors of RHFL. Further, in respect of two such loan transactions, Reliance Infra has extended Guarantee for a sum of INR 385 Crore, details of which are as under:

Table no. 31

Date of Guarantee Execution	Date of Agreement between borrower and lender	Name of Borrower	Lender Name	Guarantor Name	Loan Amount (INR In Crore)
08/08/2019	26/03/2019	Hirma Power Limited	Reliance Home Finance Limited	Reliance Infrastructure Limited	175.00
	22/03/2019	Vinayak Ventures Private Limited	Reliance Home Finance Limited	Reliance Infrastructure Limited	210.00
					385.00

46. The aforesaid details *prima facie* established the outset, that loans in the name of GPCL have been extended by RHFL despite specific restriction imposed by its own Board of Directors. The details also show as to how the *Noticee no. 2* who does not hold the post of Executive Director in the Company RHFL, has used his “controlling powers” to sanction the aforesaid loans to connected entities without paying any heed to the directives of the Board. Therefore, it can be *prima facie* said that when the Chairman of the Group is exercising such powers to get the funds transferred as GPCL to the conduit borrowing entities, and when the other promoter group companies are coming forward to provide Guarantee on behalf of such GPCL borrower entities, these actions and deviated business conduct on the part of the Chairman vindicates the observation that it is the *Noticee no. 2* only who was practically controlling the activities of extension of GPCL to various entities for eventual enrichment of the Promoter group/lined companies, more so when details of the Guarantees extended by Group companies (which otherwise is perceived as a good measure of due diligence in a loan transaction) have been conspicuously missing in the Annual Report of RHFL for the relevant years.

47. The aforesaid *prima facie* observations get further accentuated from the fact that the entire amount of INR 6931.31 Crore of GPCL (out of the total amount of INR 9295.25 Crore) that remained outstanding to be paid to RHFL as on September 30, 2021 (as

indicated in Table no. 13) has already been declared as NPA, and none of the Guarantees provided by Reliance Infra and Reliance Power has yet been exercised. Non-invocation of such corporate guarantees further strengthens the suspicion that such Guarantees were *prima facie* provided by the promoter group companies only to hoodwink the shareholders at large as well as the relevant authorities and regulators and to give them a false sense of assurance that the GPCLs are well secured by guarantees though such guarantees were never intended to be exercised nor have been exercised, as they ought to have been.

48. It is noted that RHFL had shown the GPC loans on the assets side of its Balance Sheet under the head Loans- Corporate Loan in the following manner:

Table no. 32 : Relevant amounts of the Loans, security and ECL as disclosed in Annual Report of RHFL 2018-19

Particular	FY 16-17	FY 17-18	FY 18-19
Assets			
Loans	9785.43	14410.45	16251.09
Impairment Loss Allowance (Expected Credit Loss) (ECL)	(167.04)	(229.28)	(278.38)
(Loans) Secured by tangible and Intangible Assets	9892.47	14620.69	16510.69

(Source: Refer page 72 of Annual Report of RHFL for FY 2018-19)

49. In the note no. 2 below the said table, it is disclosed that *“During the Financial Year, the Company had advanced loans under ‘General Purpose Corporate Loan’ product to certain bodies corporate including some of the group companies. All the lending transactions undertaken by the Company are in the ordinary course of business, the terms of which are at arms’ length basis and the same do not constitute transactions with related parties. However, the Company’s borrowers in some cases have undertaken onward lending transactions and it is noticed that the end use of the borrowings from the Company included borrowings by or repayment of financial obligations to some of the group companies. “*

50. Although the afore-stated note stakes a claim about GPCLs being advanced to some group companies *albeit* at arm’s length, there is neither any specific mention about the connection of these companies with the promoter group entities nor about the deviations committed from established procedures, the poor due diligence and breach of directives of RHFL Board committed by the loan approving authorities including the Chairman of ADA

group, at the time of disbursing the loans to those entities, rendering the note to the accounts to be an ambiguous statement with no substance. Further, the quantum of GPC lending and onward lending has not been quantified and disclosed appropriately. Thus, the *Company* has not disclosed the vital aspects of its GPCL portfolio to its shareholders and the public at large and instead, has resorted to a misleading presentation of its loan assets and consequently the profitability of such loans advanced by it a large portion of which has turned NPA soon after their disbursal to promoter linked entities in a clandestine manner through the conduits of the GPCL Borrowing entities, has also been misrepresented in the Accounts of the *Company*.

51. Further, RHFL in its Notes to Financial Statements in Annual report for the year 2018-19, while apprising about its accounting policy for recognizing expected credit loss (ECL) for the financial assets (Loans), has stated that:

“Ind AS 109 outlines a ‘three stage’ model for impairment based on changes in credit quality since initial recognition....

Financial instruments in ‘Stage 1’ have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within next 12 months. Instruments in ‘Stage 2 or 3’ have their ECL measured based on expected credit losses on a lifetime basis.”

52. Based on the above accounting policy, RHFL has disclosed that the total expected credit loss for their entire portfolio of loans (including GPC loans) of INR 16,529.47 Crore advanced during FY 2018-19, comes to INR 278.38 Crore only. Further, they have disclosed GPC loans in the category of “Other loans” at INR 8015.89 Crore outstanding as on March 31, 2019, while calculating the above noted expected credit loss. It is also seen that RHFL has made provisions for non-housing loan assets merely to the extent of INR 78.84 Crore for FY 2018-19, while as per the reply of RHFL dated November 24, 2021 to SEBI, it is noticed that the entire outstanding of the GPC lending of INR 6931.31 Crore (as reflected under Table no. 13) has since been classified as NPA as on September 30, 2021.

53. From the aforesaid details read together with the observations in CAMs of the GPCL as discussed earlier, wherein the Probability of Default was one of the deviations recorded by RHFL, it is *prima facie* clear that even at the time of disbursement of GPCL, RHFL was well cognizant about the risk of default, and yet, appropriate provision was not made in the books of accounts in terms of relevant accounting standard. Based on such facts, one can say that the financials for the FY 2018-19 consequently remained inflated /misrepresented to the extent of such non-provisioning against the potential NPAs emerging out of those GPC lending done in such deceitful manner to benefit the promoter group/linked entities by transferring borrowed funds to them through the conduit GPCL borrowers. It is also observed that the impairment provision for the expected credit risk exposure by RHFL does not seem to be in compliance with relevant provisions of impairment as per Ind AS 109.

54. It is further noticed that the GPCLs were disclosed as secured against Tangible and Intangible Assets which has turned out to be factually erroneous and not supported by any tangible evidence during the investigation. It is therefore *prima facie* observed that RHFL has misrepresented its financial statements for the year 2018-19 by giving wrong and incomplete disclosure with respect to GPC Lending and also has overstated its revenue by not making adequate provisioning against the impairment for GPC loans in terms of Ind AS 109.

55. It is noted that the price of the scrip of RHFL fell significantly after the corporate announcement was made on June 12, 2019 disclosing the resignation of PWC as its Statutory Auditors, as indicated in the following table:

Table no. 33

Date	11-Jun-19	12-Jun-19	13-Jun-19	14-Jun-19	17-Jun-19	18-Jun-19	19-Jun-19
Share Price	17.75	17.05	14.95	14.30	13.25	11.95	10.80

(Source: BSE website)

56. At this stage, it is relevant to mention that the Board of Directors of RHFL in its meeting held on February 11, 2019, had decided that henceforth loans shall only be given for retail home loan portfolio activities for long term purposes and to the builders for residential housing constructions and for all purposes as permitted by NHB towards individual/retail residential lending. The Board also directed the Management that no further corporate loans shall be extended by RHFL. However, the said direction issued by its Board was not disclosed on the Exchange platform by RHFL, and such an omission on the part of RHFL has kept the investors in dark about this sensitive decision taken by the Board. The fact of having extended loans for GPCL purposes and the fact of non- housing loans being more than the housing loans came to be highlighted by RHFL only on June 12, 2019, while making disclosure of resignation of PWC as its Statutory Auditors. Insofar as the resignation of PWC is concerned, it seems that PWC was making adverse observations pertaining to the Audit of Financial Year 2018-19, however, the *Company* kept contesting the consequent inferences expressed by PWC which emerged from the letters of PWC addressed to the *Company* and to the Stock Exchanges. When one revisits the concerns and issues raised by PWC in its letters read with the aforesaid findings and observations on various serious malpractices being followed by the *Company* in its lending activities, a plausible picture emerges now as to why the *Company* was reluctant to provide relevant information to PWC, which ultimately led to the said Auditor resigning as a Statutory Auditor and the announcement of such resignation ultimately impacted the price of the scrip, as indicated in the table above

Role of Promoter, Director and CFOs

Role of Noticee nos. 2 and 4

57. It is noted that during the course of the investigation, the Investigating Officers have recorded statements of various persons who have been at the helm of affairs of the *Company* during the relevant times. The statement of Mr. Ravindra Sudhalkar (*Noticee no. 4*) who was the Executive Director and CEO of the *Company* (*Noticee no. 1*) during the relevant period and played a crucial part in the loan sanctioning process, was recorded on December

22, 2021. Thereafter, certain information have also been furnished by him vide various letters dated December 22, 2021, December 31, 2021 and January 06, 2022. From the statement and other submissions made by the *Noticee no. 4*, the following information have come to my notice:

- a) That in terms of the Policy for GPCL (Demand/Call Loan), Chairman of the Holding Company, i.e., *Noticee no. 2*, was the approving authority for transactions beyond the threshold of INR 6750 Crore.
- b) That Credit Committee has waived the loan processes/documentation etc., due to the fact that borrowing entities were part of larger ADA Group.
- c) That various notices have been sent to the defaulting borrowing entities during the period of November 19, 2019 to November 21, 2021.
- d) That he came to know that the loans given as GPCL were being used to repay the earlier loan of ADA Group, guarantee worth INR 2,900 Crore was secured from Reliance Infrastructure.

58. As recorded earlier in this order, *Noticee no. 4* was the Executive Director and Chief Executive Officer (CEO) of RHFL and was also one of the members of Risk Management Committee. As such, he has attended all the Board Meetings, as well the meeting of the said committee held during the investigation period. By virtue of his designation as Executive Director, he was a “key managerial personnel” of RHFL.

59. The statement made by *Noticee no. 4* has not only exposed the grossly faulty processes being followed in RHFL for the purposes of sanctioning GPCL, but such statements have also thrown sufficient light on the nefarious role played by himself (*Noticee no. 4*) and other entities like *Noticee no. 2*.

60. A perusal of the aforesaid information as culled out from the statement of *Noticee no. 4* would indicate that *Noticee no. 2*, who is not even an Executive Director on the Board of RHFL, has exercised such an extra-ordinary sanctioning power, to approve loans even beyond the total permitted threshold of INR 6,750 Crore fixed by the *Company* for itself. It seems strange that such a crucial decision making power pertaining to a supposedly

professionally managed publicly listed Corporate entity engaged in utilizing huge amounts of borrowed funds for advancing towards housing & GPC loans was exercised by a person who is not even an Executive Director whereas, it is expected that all the decisions impacting the wealth of RHFL, which essentially belonged to its shareholders, ought to have been approved through the Board processes only. Surprisingly enough, the investigation could not find any evidence to suggest that such an extra-ordinary power being enjoyed by *Noticee no.2* as Chairman of the group had the backing of any Board Approval / Board resolution hence, the *Company* has no explanation to offer nor has any rationale to justify such self-assumed empowerment of *Noticee no. 2* for taking such vital corporate decisions to sanction loans in excess of the upper threshold limit stipulated by the Board of the *Company*. The aforesaid statement made by *Noticee no.4* certainly reinforces the *prima facie* observation made earlier in this order regarding the willful complicity of the *Noticee no. 2* in the whole scheme of events involving GPC lending to conduit entities only to ultimately transfer funds to promoter linked/group entities through these conduits.

61. The statement of *Noticee no. 4* also makes a candid admission of the fact that the borrower entities were indeed part of the ADA Group due to which the loan sanctioning authorities of the *Company* did not subject these companies to the discipline of loan approval processes and instead adopted a generous approach while sanctioning loans to these entities. It is also noticed that since the year 2019, empty formalities of sending legal notices to the defaulting borrowers whose loans have been declared as NPA, are being carried out, and even till date, there is no information if any concrete action has been taken by the *Company* against these GPCL borrowers for recovery for such amounts from them.

62. Further, the statement of *Noticee no.4* with respect to “securing” a Guarantee from Reliance Infra leads to an admission of the fact that such a guarantee was taken as an *ex post-facto* event, supposedly after he came to know that loans given as GPCL were being misused to repay the earlier loan of ADA Group which *prima facie* reveals that the guarantee was never intended to be executed as part of due diligence at the time of extension of such loan but was obtained as a cover-up only after the true end use of such loan became a

known fact to him. Such a response from *Noticee no.4* further strengthens a *prima facie* belief that the creation of such an *ex-post facto* Guarantee was only a tick-box formality so as to cover up the underlying fraudulent scheme involving the transfer of funds to promoter group companies under the garb of loans *sans* any effective due diligence or without compliance with due processes and to avoid any scrutiny by the auditors/relevant authorities etc.

63. It has also been stated by the *Noticee no. 4* that the Board of Directors was being reported about the status of GPCLs on a quarterly basis. The Board as well as the Audit Committee were being informed about the GPCLs advanced to the ADA Group companies in every meeting and it was decided by the Board in its meeting dated February 11, 2019 not to give any further GPCL. It is noted that the *Noticee no. 4* being CEO and Executive Director of the *Company* was not only at the helm of affairs of *Noticee no. 1* but also in terms of the Board Resolution dated April 24, 2017, he was the ex-officio member of the Credit Committee for considering loan applications greater than INR 5.00 Crore.

64. I note that the *Noticee no. 4* in capacity of CEO was the central point of communication between the Board of Directors, all the personnel involved in Corporate Operations of the *Company*, and also with all the senior management personnel like CRO, Operational Heads, Company Secretary, who were reporting to *Noticee no. 4*. He was under a bounden obligation not only to stall any act pertaining to RHFL, which was amounting to any circumvention of laws, but also to bring all the relevant facts to the knowledge of the Board of Directors of RHFL. However, as the facts of the case speak for themselves, till the Board Meeting was held on November 01, 2018, the CEO (*Noticee no.4*) did not disclose the crucial information to the Board of Directors or the Shareholders, pertaining to the deviations having been committed by the loan approving authorities in the *Company* in approving GPCLs to the entities which were admittedly connected/part of the ADA Group. It is also not disputed that no concrete actions/steps were taken by *Noticee no. 4* as the CEO so as to recover the monies due to be recovered by the *Company* (RHFL) from such entities who were granted loans without following the basic norms of due diligence

or documentation and were treated with favoritism while advancing such huge amounts of GPCL.

65. I observe from the statement made by *Noticee no. 4* before SEBI that loan approval processes were waived for certain borrowing entities due to the fact that those borrower entities were part of ADA Group itself, which is sufficient to suggest that the *Noticee no. 4* in complete disregard for his role as a CEO of a listed company, was deliberately bypassing all the requisite requirements/due diligence processes while processing the GPCL applications of the ADA Group companies which again demonstrates that contrary to the claim made by the *Company* in its Annual Report for the FY-2018-19 referred to above, the ADA Group companies were not treated at arm's length when it comes to financial transactions with them. I may hasten to add here that even for those loans extended to the ADA Group entities or to the GPCL borrowing PILEs for which *Noticee no.4* was not directly involved or was not part of the relevant Credit Committee that approved those loans, being the CEO and Executive Director of *Noticee no. 1 Company*, it was his avowed duty to prevent such loans from being disbursed to such promoter group related entities travelling through layers of conduit borrowers which were not having any financial wherewithal. *Noticee no. 4* cannot now feign ignorance of such loans since such GPCLs involving huge sums of money could not have been disbursed to these entities without the explicit approval/knowledge of the *Noticee no. 4*. Needless to emphasize here that *Noticee no. 4* being the CEO was *inter alia* entrusted with the statutory responsibility to ensure compliances by the *Company* of all the applicable statutory and regulatory provisions, and to manage & mitigate all kinds of internal and external risks arising out of the business activities of the *Company*. Further, the *Noticee no. 4* is also a signatory to the financial statements of RHFL for Financial Year 2018-19 referred to above, which contained misleading statements and wrong figures.

66. Further, in terms of submissions made by the *Noticee no. 4* to the Risk and Management Committee, the GPC Loans were classified under the category of 'Construction Finance' or 'Exposure to Commercial Real Estate'. The Risk and

Management Committee was however not informed about the deviations that have already been committed while processing and approving such loans nor the Committee was informed about the fact that such loans have been extended as General Purpose Corporate Loans and that the borrowers of those loans have onward lent those funds to different promoter linked entities. As already stated in the earlier part of the present order, PWC, the then Statutory Auditor of RHFL had raised certain concerns while auditing the books of accounts of RHFL, however, *Noticee no. 4* being the incumbent CEO of RHFL, not only brushed aside the concerns so raised by PWC, but also requested Regulators like SEBI to ignore the letters in which PWC had conveyed their concerns about RHFL's deviant lending activities and instead, went on to term the observations of PWC as baseless and unjustified.

67. Moreover, after the resignation of PWC as the Statutory Auditor, Dhiraj and Dheeraj, CAs firm came to be appointed as the Statutory Auditor of RHFL for the Financial year 2018-19. The said Auditors have also given a qualified opinion citing that is they are not getting sufficient audit evidences so as to ascertain the recoverability of principal and interest amount including the expected time frame for recovering of such dues.

68. It is also noticed that as on March 31, 2019, RHFL was having INR 7849.89 Crore in its books of accounts as GPCL extended by it and the said loans were non-performing assets. However, as pointed out earlier, RHFL has made Loan Loss Provisions of only to the extent of 25-30% of the entire NPAs arising out of such loans. In an ideal situation, the said loans ought to have been classified as NPA and the *Company* should have made provisions for 100% of such loans, and accordingly, RHFL was supposed to show the same as loss in its Profit and Loss account. Contrary to this basic principle of prudent accounting practice, it is seen that even the loans which have not been performing at all, were not provisioned for by RHFL, as they ought to have been, and by such a deliberate act non-provisioning for the non-performing loan assets in the books of accounts, it is prima facie observed that the quarterly financial results for the quarters ending on June, 2018,

September, 2018, December, 2018 and March, 2019, as published by RHFL were grossly understated in terms of its bad loans and provisioning for such loans and consequently the accounts were misrepresented with inflated profits while none of the GPCL Borrower entities was repaying/servicing such loans. Further, the Board was very much aware of the likely fate of such lending, which was mostly extended to their own related/connected entities under the guise of GPC loan through layering of transactions. It is apparent that the same was done with the objective of avoiding the disclosure requirement under the LODR Regulations even though the lender was cognizant of the identity of the ultimate group/related entities for which the aforesaid scheme of borrowing and lending was devised and also about ultimate fate of such lending and borrowing. The aforesaid act on the part of the *Company prima facie* shows as to how as a CEO, *Noticee no. 4* has taken all possible steps under his might so as to carry on window dressing of the financial statements of the *Company* in order to cover up the actual transactions and their underlying malicious design to enrich the ADA group companies, which are now *prima facie* seen to be part of a well- conceived scheme to divert funds from RHFL through the conduit entities in the form of GPC loans so as to make such funds available to the promoter related entities, in complete disregard to all lending norms and arms' length principles.

69. Thus, the afore mentioned discussion leaves no doubt in the mind that *Noticee no. 4* despite being cognizant of the weak financial health of the borrower entities deliberately approved the loans and did not take any concrete steps to recover the unpaid dues outstanding towards RHFL. In my considered view, without the deliberate complicity of *Noticee no. 4*, all these transactions resulting in flow of monies from the coffers of RHFL to GPCL Borrower entities and from such borrower entities to promoter related entities, would not have been possible.

Noticee no. 3

70. During the investigation by SEBI, the statement of Mr. Amit Bapna, (*Noticee no. 3*) was recorded on December 16, 2021 and in pursuance of the said statement, subsequently certain information have also been furnished by *Noticee no. 3* vide his email dated December

27, 2021. The contentions made by the *Noticee no.3* in the statement and the information shared by him during the investigation reveal that:

- a) He was reporting to the *Noticee no. 4* and he was also a member of the Credit Committee/Leadership Council and during his membership of the said Committee, some GPCLs were approved.
- b) There could be some loans which were directly approved by the Top Management or were approved by the Top Management even after rejection by the Leadership Council.
- c) He was also one of the members of the Risk Management Committee of RHFL. In the meeting of the said committee held in February, 2019, the details of GPCLs advanced were disclosed. On the same day itself, a Board decision was taken not to lend any further GPC loans.
- d) There could be some deviation in the loan approval process and there could be a few instances wherein RHFL or Reliance Capital Limited may be indirectly associated with the borrower entities.
- e) *Noticee no. 3* was the Non-Executive Director and Chief Financial Officer of RHFL from the period of September 2017 to August, 2018. He was also the CFO of Reliance Capital Limited. However, he was authorized by the Board of Directors for conducting all transactions related to business operations of the *Company* viz., lending and borrowing.

71. From the afore said submissions of *Noticee no.3*, it is observed that the *Noticee no. 3* was playing a dual role in the ADA Group, as the CFO of both RHFL and its holding Company (at the relevant times) viz., Reliance Capital Limited. Further, he was also one of the Non-Executive Directors of RHFL for the period from April 24, 2017 to June 23, 2020. This apart, he was also a member of the Credit Committee/Leadership Council as well as of the Risk Management Committee of RHFL and has attended all their meetings held during the period of investigation. In terms of such appointments, *Noticee no. 3* was a 'key managerial personnel' of RHFL.

72. In this connection, there cannot be two opinions that the role of CFO is explicitly crucial for financial transactions of a company since CFO's responsibilities *inter alia*, include

financial planning as well as analyzing the company's financial strengths & weaknesses, assisting the top management in taking all major financial policy decisions, getting the accounts of the company audited in time and overseeing the preparation of all financial statements. Even though he was a Non-Executive Director of RHFL, the role of *Noticee no.3* in the affairs of RHFL was multifold, i.e. the crucial role as a CFO performing the above noted activities, and also as a member of the Credit Committee, he was exercising powers to approve the loans to borrowing entities involving a quantum more than INR 5.00 Crore. From the manner in which GPC loans have been advanced to various conduit borrowing entities which were onwards lent to promoter linked entities as described in the foregoing paragraphs, it can be very well observed as to how abysmally poor was the level of due diligence exercised by the *Noticee no. 3* in respect of the loans sanctioned by the Committee having him as the member. Even for the loans bearing lesser amount (less than INR 5.00 Crore), the CFO cannot claim to be ignorant about the shoddy way these loans were sanctioned to various entities who were apparently misfit and ineligible to be granted any loan given the poor financial & business affairs of those entities. Under the circumstances, I *prima facie* observe that *Noticee no. 3* has played a crucial role in the series of dubious loans disbursements and clandestine transfer of funds to the promoter group entities under the name of GPC loans by RHFL.

73. At this stage, it is worth mentioning that Reliance Capital Limited (holding company of RHFL) was found to have received INR 1432.07 Crore during the Financial Year 2018-19 from some of the entities to whom RHFL (the subsidiary of Reliance Capital Limited at the relevant times) had extended GPC Loans. I have noted above that *Noticee no.3* was wearing double hats as the CFO of Reliance Capital as well as the CFO of RHFL during the investigation period. As part of the Credit Committee of RHFL, he was also part of the approving authority for the GPC loans that were advanced to many promoter group companies through various conduit companies during his tenure as a CFO and as a member of the credit committee. In this regard, to illustrate one such instance of collusive conduct as displayed by the *Noticee no.3*, it can be noted from the said Table no. 22 above

that on April 27, 2018, a loan of INR 100 Crore was paid to an entity viz: Adhar Project Management and Consultancy Private Limited by RHFL. The said amount was further transferred by that entity on the same date itself onward to three (03) entities as: INR 19 Crore paid to Reliance Unicorn Enterprises Private Limited, INR 15.10 Crore paid to Crest Logistics Private Limited and INR 65.90 Crore was paid to Reliance Capital Limited. The said loan of INR100 crore was approved by a committee comprising of *Noticee no. 3* and *Noticee no. 4*. As stated earlier, *Noticee no. 3* was CFO of RHFL and also of Reliance Capital, which received the said amount of INR 65.90 Crore from RHFL, albeit by routing through a conduit entity. I observe that such self-speaking facts as illustrated above are sufficient to support my prima facie findings that the *Noticee no. 3* has played a major role in all such questionable loan transactions, during his directorship and his tenure as CFO of RHFL.

Noticee no. 5

74. It is noted that after the resignation of *Noticee no. 3* as the CFO, Mr. Pinkesh Shah (*Noticee no. 5*) came to be appointed as the CFO of RHFL w.e.f August 07, 2018. The statement of *Noticee no. 5* was recorded on December 16, 2021 wherefrom the following facts have emerged:

- I. He was reporting to *Noticee no. 4* and was also submitting certain business reports to *Noticee no. 3*.
- II. He was not aware who was putting up proposals for such GPC Loans.
- III. He doesn't have any information/idea with respect to the process of approvals of GPCLs. After February, 2019, GPCLs were approved by the top management.
- IV. He also doubted that GPCLs were secured other than by the Corporate Guarantee and charge on current assets/onward lending.
- V. He was not aware about the rationale behind the changing of business priorities to advancing GPCLs from other housing loans and was also unaware about the due diligence carried out before the grant of such loans.

75. Insofar as *Noticee no. 5* is concerned, I note that he was the Chief Financial Officer from August 2018 to May 2020 discharging all the crucial functions associated with the job profile of a CFO under law. However, from the nature of statements made by him before SEBI, it can be clearly discerned that *Noticee no. 5* is trying to feign ignorance about the whole process of GPCL. It cannot be accepted for instance as to how, being the CFO of the *Company*, he was not even aware about the details of persons who were putting up the loan proposals for approval as GPCL since as a CFO, it was his primary responsibility to ensure that all requisite due diligence is complete and all the steps involving loans processes are complied with before the loan proposals are put up to the credit committee or any other competent authority for sanctioning and disbursal of any such GPC loans. It is also quite unusual to note that the CFO of the *Company* in a sworn statement has claimed that he was completely unaware about the due diligence carried out for such loans.

76. I have already enumerated while dealing with the role of *Noticee no. 3* as to how crucial is the role of a CFO in a Company, more particularly in the matter of preparation of financial statements which reflect the actual financial health of a company in quantifiable terms. In the present case, the Annual Report of RHFL for the Financial Year 2018-19 contains a certificate from *Noticee no. 5* (and *Noticee no. 4*) wherein it was *inter alia* stated that: “the financials of RHFL presented true and fair view of its affairs and not contained any misleading statement” and “no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company’s code of conduct”. Given the poor state of affairs of the *Company* that can be witnessed through the lens of those GPC loans that were advanced in a devious manner so as to divert the borrowed funds of the *Company* towards promoter group companies, apparently, one can now state for sure, that the aforesaid financial statements/certification were false and misleading and did not reflect the true & fair picture of the financial affairs of the company thereby causing glaring transgression of corporate governance as well as contraventions of various provisions of securities laws.

77. Moreover, when the statement made by *Noticee no. 5* is examined in terms of various statutory & regulatory responsibilities cast on a CFO of a listed entity, it becomes

all the more *prima facie* clear that such gross dereliction of duties as displayed by the *Notices* in discharging his duties as a CFO cannot be termed as mere negligence or ignorance and rather, looking at the preponderance of probabilities from the facts of the case as well as the proactive role he was required to play which he conspicuously did not do, the *Notices* no. 5 has seemingly connived with and contributed to the whole scheme of diversion of funds by RHFL by consciously ignoring all the requisite requirements of due diligence that was essentially needed to be complied with prior to sanctioning of such GPC loans as discussed earlier.

78. Apart from aforesaid Key Managerial Persons of the *Company*, I find that certain other senior functionaries of the *Company* (who are not part of the present proceedings) in their statements recorded before SEBI have also provided corroborative evidence with respect to the loan transactions of RHFL, which are highlighted herein below:

- I. Ms. Parul Jain, Compliance Officer of RHFL, in her statement recorded on December 17, 2021 and further submissions made vide letter dated December 24, 2021 has stated that she used to give confirmation with respect to status of an entity being a related party (or not) whenever any loan application was received by RHFL. She further stated that she was aware about the fact of the onward lending being made by the GPCL borrower entities to the Reliance Group Companies.
- II. Mr. Raj Kumar M, Chief Risk Officer/CRO and part of Credit Committee/Leadership Council from November, 2018 onwards, in his statement recorded on January 04, 2022 has *inter alia* stated that GPCL were given on Management's reference and were meant to be short term loans to be repaid in one year. He has further stated that Mr. Amit Bapna (CFO) used to refer these borrower companies for loan processing and all instructions and deviations with respect to such loans were originating from Mr. Amit Bapna and were seconded by Mr. Ravindra Sudhalkar (CEO). Mr. Krishnan Gopalakrishnan (CRO) used to recommend these loans for approval and they were being approved by Mr. Amit Bapna and Mr. Ravindra Sudhalkar and thereafter CFO of RHFL used to disburse

these loans so approved. He also highlighted that various deviations from the extant Policy of the Company for lending of GPC Loans were made, such as ignoring weak financials, non-creation of collateral securities etc.

III. Mr. Krishnan Gopalakrishnan, Ex- CRO, RHFL in his statement recorded on January 07, 2022 has made certain identical statement as made by Mr. Raj Kumar M. He has further *stated that* upon receiving instructions from Mr. Amit Bapna (CFO), in favour of the loan applications as forwarded by Mr. Ravindra Sudhalkar (CEO) to his team, Credit Appraisal Memos (CAM) were being prepared and such CAMs contained all the criteria listed out as per the *Company* policy along with the deviations, deferrals and waivers. Such CAMs were approved by CEO (Ravindra Sudhalkar) and One Director (i.e. Amit Bapna). Further, all deviations were listed out in the CAM and they were approved by the CEO (Ravindra Sudhalkar) and One Director (i.e. Amit Bapna). He has further stated that the Committee had the comfort of giving such GPC Loans to promoter group companies which was a strong consideration because of ADA Group's backing and also due to the fact that the loan case was being brought by the Group CFO (Mr. Amit Bapna).

79. From the statements of the aforesaid persons as highlighted above, it is prima facie observed that due diligence requirements on critical parameters were knowingly and consciously being given a go-by while approving the GPC Loans. Further, the afore-cited statements speak in unison as to how *Noticee nos. 3 and 4* were involved so actively in the whole process, so much so that *Noticee no. 3* has been instrumental in bringing the GPC Loan proposals to the *Company* and referring them to the competent authorities for sanction.

80. On the basis of the various factual details and findings made available through the investigation of SEBI into the business conduct of the *Company* as have been discussed at length in the preceding paragraphs, the glaring irregularities and dishonest impropriety that is so writ large from the conduct of the Chairman and Key Managerial Persons of the *Company* and the consequential *prima facie* inferences that can be reasonably drawn

pertaining to lending activities of RHFL especially to the entities with whom it has entered into lending activities in a fraudulent manner, are as follows:

- I. RHFL, which is primarily a company engaged in the business of home loans, had extended more than 50% of its total loan portfolio to various entities as General Purpose Corporate Loans. Such GPCLs advanced by it have rapidly increased from INR 900 Crore as on March 31st, 2018 to INR 7,900 Crore in Financial Year 2018-19.
- II. RHFL was not able to adequately address the queries & concerns raised by its own statutory auditors, i.e., PWC, which constrained PWC to tender resignation and led to the appointment of a fresh Statutory Auditor by the *Company*. The new Statutory Auditor has also expressed a qualified opinion (as recorded in the Annual Report of RHFL for FY 2018-19) highlighting the fact that RHFL has advanced loans under General Purpose Corporate Loan with significant deviations. These General Purpose Corporate Loans were advanced to entities which included group companies of RHFL itself and the entire outstanding loan of INR 6931.31 Crore have been declared as NPA as on September 30, 2021
- III. The aforesaid qualified audit notes further exposed about the illicit end use of these GPC loans advanced by RHFL towards repayment of old loans by some of the group companies of RHFL, who had earlier received such loans from RHFL. Also, the audit notes have pointed out to the absence of any audit evidence to ascertain the recoverability of principal amount as well as the time frame of possible recovery of those loans which have already become over dues. The audit notes also expressed concerns that the recovery of the GPC loans by RHFL is dependent on the recovery of onward lending made by the GPCL borrowers to the promoter group companies, a factor which is not in the control of RHFL. The said apprehension was translated into reality when one finds that certain onward borrower entities have tried to discharge their loans liabilities barely on paper, by issuing 0% Unsecured Optionally Convertible Debentures (OCDs) against an outstanding

amount of INR 1078.80 Crore to their respective lenders (i.e. GPCL Borrowers of RHFL). However, at the same time, the books of accounts of RHFL, from where the money originally flowed out as GPCL, have declared such loans issued to GPCL Borrowers as NPA.

- IV. It raises a strong *bonafide* suspicion about the conduct of business operations of RHFL and leaves little doubt in mind that the affairs of the company have not been carried out transparently and in a fair manner while processing and disbursing loans to various borrowing entities over the years. Further, the way the loans have been disbursed in several instances as pointed out above, without conducting the necessary elementary due diligence, and even going to the extent of disbursing loans prior to receiving applications from some of the borrowers linked to the promoter group and also from the manner of the utilization of the GPC loans amounts by the borrowing entities towards onward lending either to connected entities or otherwise, any prudent person will be constrained to hold that the business affairs of RHFL have been glaringly conducted in a reckless and fraudulent manner that is prejudicial to the interest of its shareholders that was clearly inimical to the interest of the investors of the securities market.
- V. As observed in the preceding paragraphs, many of the borrowing entities whose loan accounts have been declared as NPA, were having extremely poor financials in the preceding three years (from the year of disbursal of loans to them), which were not at all commensurate with such large amount of loans advanced to them by RHFL. For illustration, an entity named Gamesa Investment Management Private Limited (*Noticee no. 14*) had received a total sum of INR 664 Crore during the period from September 19, 2018 to March 20, 2019. The said company had tangible assets of only INR 51.63 Crore in its books and its net worth was either negative or nil during the last three preceding years. Similarly, another entity namely Adhar Project Management and Consultancy Private Limited, which was extended a loan of INR 584 Crore during the Financial Year 2018-19, also had negative net

worth during the past three years and it did not have any tangible assets in its books. The illustration of the aforesaid two loans instances is self-evident of the fact that the explanation furnished by RHFL to its then Statutory Auditor (PWC) vide their letter dated May 09, 2019 stating that the loans have limited risk of weak collaterals, is not supported by the factual details surrounding these loans, as illustrated above. Further, the justification offered by RHFL that the loans have been advanced on the strength of guarantee back up of listed companies, is also found to be a vague and specious claim as no connection between any borrower entities with any corporate guarantees (having been furnished by any listed companies) has been observed in the course of examination of the materials/information so furnished by RHFL and its borrower companies.

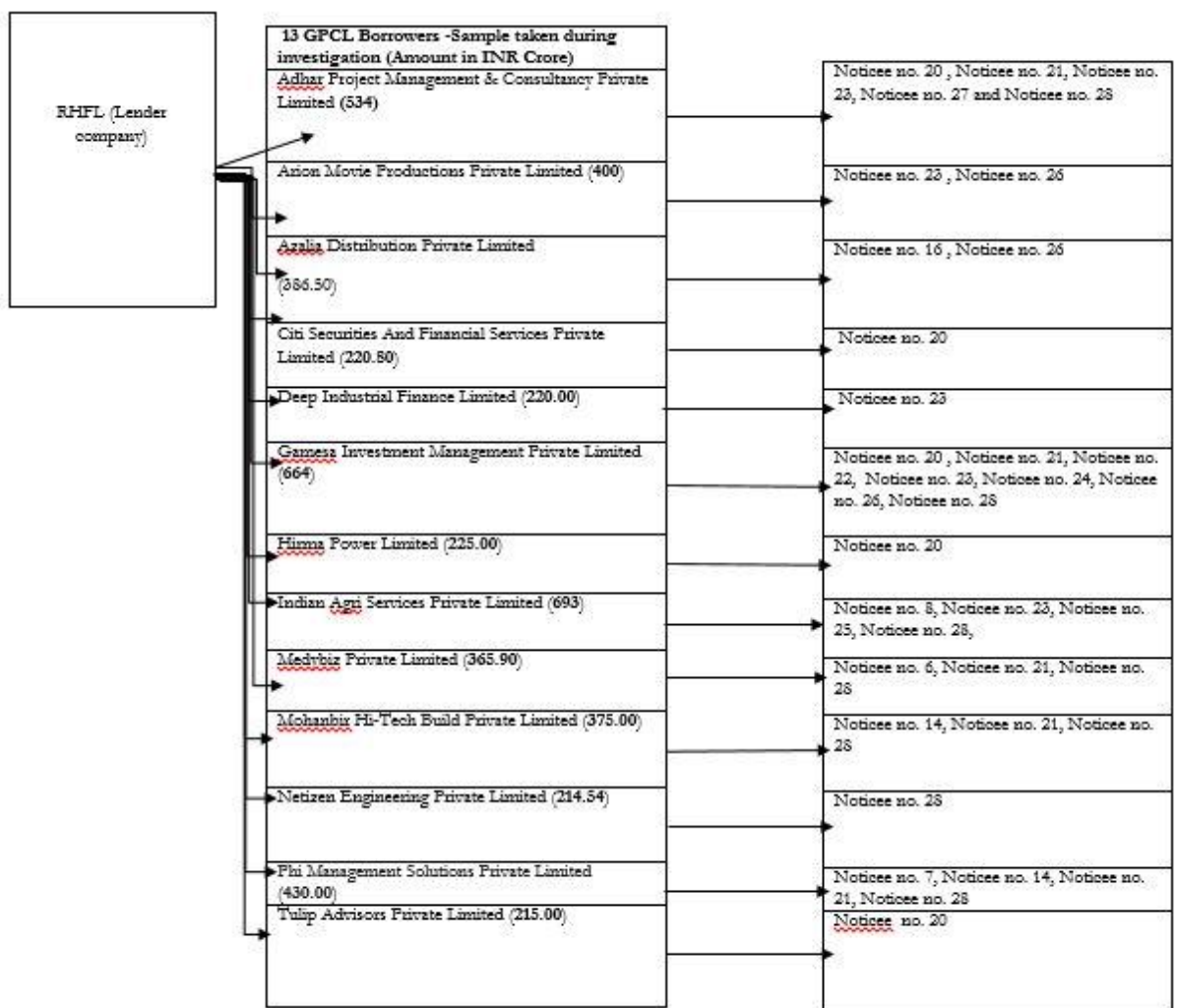
- VI. One crucial finding from SEBI's examination into the business affairs of RHFL is that an aggregate amount of INR 9295.25 Crore has been extended as GPCL to a total of 45 entities (as mentioned in para no. 13 above), which are, as revealed from the statements of different Directors/CFO/other employees and from other information also, found to be potentially linked to the larger ADA Group, i.e., connected to ADA Group indirectly. Out of the aforesaid amount so advanced to these potentially connected entities, large amounts are seen to have been directly utilized towards repayment of existing debts of such entities while certain amounts of loan funds have followed a circuitous/circular route to get ploughed back to RHFL itself. Further, in many instances, it is seen that the GPCL borrower entities have transferred such loans so received from RHFL, immediately to other connected entities as loans, and the promptness displayed by them in the issuance of those onward loans to other connected entities evidently suggests that the GPCL borrower entities were acting as mere conduits to obtain loans from RHFL only to immediately pass on those loans onwards to other promoter linked entities. Illustratively, one such borrower viz; Adhar Project Management & Consultancy Private Limited, after receiving INR 100 Crore from RHFL on April 27, 2018,

distributed the whole amount to connected entities of the Promoter group such as Reliance Capital Limited (*Noticee no. 28*), Crest Logistics and Engineers Private Limited (now known as CLE Pvt. Ltd.) (*Noticee no. 20*) and Reliance Unicorn Enterprises Private Limited (*Noticee no. 21*).

- VII. As stated in the beginning of this order, out of 45 unique GPCL borrower entities, 41 entities (having exposure of INR 7,822.90 Crore as reflected under Table no. 16) were found to be sharing common addresses and all these 41 entities were confined to only 8 different locations in Mumbai. For illustration, Adhar Project Management and Consultancy Private Limited (*Noticee no. 6*) and Gamesa Investment Management Private Limited (*Noticee no. 14*) share their address with six other entities and all such eight entities have taken a total loan exposure of 2321 Crore (approx.) from RHFL. Apart from common addresses, common email addresses were also seen to be shared by many such GPCL borrower entities, which suggests that almost all the GPCL Borrower entities were potentially linked to RHFL or its Promoter group entities who made onward lending to many other Promoter Group/linked entities.
- VIII. Thus, the investigation has revealed that many of the borrower entities (which borrowed from RHFL) and the entities to whom monies were lent onward were sharing the same address, contact details, promoter group emails, and were also having common Directors. Moreover, two of the GPCL borrower entities were sharing the email domain of the promoter group of RHFL itself and the Directors of such borrower entities are also found to be employees of the same promoter group.
- IX. As mentioned in Table no. 22, out of an amount of INR 4,944.34 Crore given by RHFL as GPC Loan to the 13 GPCL Borrower entities (who had responded to summons of SEBI,, viz., *Noticee nos. 6 to 19*), an aggregate amount of INR 4,533.43 Crore (approx.) has been onward advanced/transferred to the promoter group entities by these borrower entities as loans. Further, almost all such GPC loan

amounts (barring only 2) were transferred to the promoter group entities (onward borrowers) on the same day of receipt of corresponding loans by the borrower entities from RHFL. For instance, Reliance Capital Limited (*Noticee no. 28*), the holding company of RHFL has received INR 1432.07 Crore while Crest Logistics and Engineers Private Limited (Now Known as CLE Private Limited- *Noticee no. 20*) has received INR 788.97 Crore as loans from the GPCL borrower entities of RHFL. It is interesting to recall here that the CFO of the first lender viz., RHFL (*Noticee no. 1*) and CFO of the ultimate recipient of funds viz: Reliance Capital Limited (*Noticee no. 28*) is one and the same person viz., *Noticee no. 3*.

- X. I have already discussed earlier as to how the due process & due diligence for appraising the loan applications were overlooked by RHFL and curiously one loan has been disbursed even before the loan sanction date and many loans have been disbursed right on the date of applications itself, hence terming such fund transfers made by RHFL as GPC loan transactions is nothing but a ruse to cover up the diversion and misappropriation of borrowed funds from the coffers of RHFL for the benefit of various promoter linked entities.
- XI. Also, as already noted earlier, RHFL has not scrupulously and transparently reported all its loans transactions to SEBI and a notable discrepancy of INR 824.60 Crore was discovered between the amounts of loans as informed by RHFL to SEBI and the amounts of loans as ascertained by SEBI independently from the borrower entities. The information submitted by the borrower entities in fact reflected an additional loan amount of INR 824.60 Crore which apparently, has not been accounted for in the books of RHFL.
- XII. At this juncture, it would be apt for the sake of clarity & better appreciation of facts to present the loans transactions indulged in by the Company through the following schematic diagram:



XIII. In order to sum up the factual conspectus governing the GPCL and its onward lending, information as captured in the following table may prove of assistance:

Table no. 34

Particulars	Amount (INR In Crore)
Total Loans disbursed by RHFL to 45 GPCL Entities (INR 8,470.65 crore + of INR 824.60 crore towards unaccounted disbursal by RHFL)	9,295.25
Loans disbursed by RHFL to Specified GPCL Borrowers (Top 13 GPCL Borrowers)	4,944.34
Loans onward lent by the above 13 Specified GPCL Borrowers	4,533.43
Loans onward lent by Specified GPCL Borrowers to 9 promoter related entities	4,013.43
NPA (INR 8,318.35 crore) and Write Off (INR 152.30 Crore) as on September 30, 2021	8,470.65

81. I note that RHFL is promoted by various promoters named in the table no. 1 from which it is seen that Reliance Capital Limited/RCL) (*Noticee no. 28*) was the major promoter of RHFL is holding 47.91% of the shareholding of RHFL during the relevant period. Apart from the same, other three companies viz., Reliance Inceptum Private Limited, Reliance Innoventures Private Limited and Reliance Infrastructure Consulting & Engineers Private Limited are holding 20.14%, 0.23% and 7.79% of the shares of RHFL, respectively. Further, another promoter of RHFL viz., Mr. Anil D. Ambani (*Noticee no. 2*) (holding 0.24% of RHFL's shareholding) is noticed to be a significant beneficial owner of the shareholding of the aforesaid three promoter entities of RHFL (Reliance Inceptum Private Limited, Reliance Innoventures Private Limited and Reliance Infrastructure Consulting & Engineers Private Limited). *Noticee no. 2* is also the Chairperson of the Anil Dhirubhai Ambani group

of companies (ADA Group) that include RHFL. Furthermore, in terms of the Related Party Disclosures made in the Annual Report of Reliance Capital Limited (*Noticee no. 28*), *Noticee no. 2* has been disclosed as an Individual Promoter being “*the person having significant influence during the year*” under the head Related Party Transactions.

82. It is noted further that out of all the funds that have been transferred onward by the borrower entities of RHFL to the promoter-group entities, RCL (*Noticee no. 28*) was the beneficiary of the largest amount of such funds transferred by RHFL to the tune of INR 1432.07 Crore (as reflected under Table no. 28).

83. It is now abundantly clear that behind the veil of GPC lending by RHFL to certain entities who were also found to potentially linked to the promoter entities and through onward lending by these entities to many promoter group entities as has been described above, large amounts of funds have been transferred from the accounts of RHFL under the garb of GPCL, in which the GPCL borrower entities seem to have acted as mere conduits for siphoning off RHFL’s funds to other group entities or promoter related entities. The Forensic Audit Report and also SEBI’s investigation have brought to light intricate proximities between the borrowing entities and the ultimate recipients of these loan funds and behind these inter-connected loans transactions, it is the *Noticee no. 2* who emerges out to be the natural person behind many such ultimate recipient companies connected to RHFL who have been benefitted from such fund transfers that were effected as part of a deliberate device by brushing aside even the basic norms/prudence of commercial lending deserved to be complied with by a NBFC. It can also be noted that without holding any Executive post on the Board or otherwise, *Noticee no. 2* has sanctioned large amount of loans (to the tune of INR 1472.16 Crore, as indicated under Table no. 15) as GPCL in various cases. For illustration, GPC loan of INR 200 Crore extended to *Noticee no. 9* is found to have been approved by the *Noticee no. 2* in his capacity of Chairman, Reliance Group and an amount of INR 175 Crore has been sanctioned as GPC loan to *Noticee no. 16* on March 26, 2019, in a similar fashion. Since the borrower companies of RHFL are not having adequate financial strength or worthwhile business operation to repay

those loans disbursed to them, quite expectedly, many of such loan accounts have already become as NPA. Such loan transactions and the manner in which the borrower companies have utilized those loans only for onward transfers to various promoter group entities, raise serious questions and apprehensions about the *bonafide*, transparency, fairness, honesty of intent and the very business prudence behind such transfer of funds resorted to by RHFL that were barely recoverable from the very day of transfer of such funds.

84. It is an undisputed position that the financial statements of a listed company form the bedrock of publicly available information about that listed company to help any investor or prospective investor to take an informed decision about making an investment in such a company. Such financial statements mirror (at least in the absence of any manipulation) the actual financial health of the company by reflecting its assets, liabilities, reserves, cash flows, profit & loss etc. The Companies Act, 2013 prescribes that all companies (listed and unlisted) need to prepare the books of accounts and other financial statements which give a true and fair view of its state of affairs. Similar such conditions are also laid down under Regulation 4 (1) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**”)

85. It goes without saying that the management of affairs of legal entities including a listed corporate entity like RHFL is controlled by natural persons who manage the business affairs and take business decisions for these entities. In order to protect the interest of shareholders and investors of any listed company against any possible malfeasance at the hands of such individuals through engagements in various dishonest & unfair practices including dubious related-party transactions, adequate provisions in form of various restrictions, compliances and onerous disclosures requirements covering various aspects of management & governance of a listed company (including such related party transactions), have been prescribed under the relevant corporate laws as well as securities laws.

86. In the present case, it is observed that most of the onward borrowers were promoter group companies and are closely linked to *Noticee no.2* and in some of these companies, *Noticee no.2* was a significant beneficial owner too. This very fact raises a *bonafide* suspicion

about the ill-intention of the *Noticee no.2* to set the entire scheme of GPC lending into motion by RHFL when he (*Noticee no.2*) is seen to have patently abused his controlling position and in glaring defiance of the directives of the Board, has gone ahead to sanction GPC loans to his own group entities. It has also been brought to fore as to how *Noticee no. 4* i.e. the Executive Director and CEO of the RHFL, has not only ignored the essential tenets of due diligence and prudent lending, but also has manifestly closed his eyes to the fact that the financials of the borrower entities were extremely weak, many of them being *sans* any tangible business operations and yet, he actively endorsed those loan approvals despite being well aware of the fact that the GPCL borrowers were closely connected with the *Company* and its promoter entities. It is also noticed that no concrete steps have been taken till date so as to recover the dues either by invoking the Guarantee provided by Reliance Infrastructure and Reliance Power or otherwise, and empty formalities of sending legal notices are merely being done probably to create a façade before regulators, auditors and shareholders.

87. It may be noted that despite there being sufficient stipulations of various provisions in the SEBI Act and in different regulations framed thereunder laying down checks and balances to be observed in the functioning of listed corporate bodies, certain persons, by conceiving intricate manipulative schemes and by indulging in a complex web of fund transfers, endeavor to show off distorted and contrived financial statements so as to camouflage their malicious financial transactions, and to conceal the true and correct financials from the stakeholders much to the detriment of the interest of stakeholders. Such a scheme is primarily conceived and implemented with a view to siphon off or divert the funds of a listed company for extraneous reasons & benefits, which *prima facie* seems to have been done in the present case, which gives rise to a very strong *prima facie* observation that Regulations 4(1)(a)(b)(c), (d), (g), (h), (i), (j), 4 (2) (b) and (e), 23(2), 30(1), 30(7), 33 (1) and 51(1) of LODR Regulations read with Section 21 of Securities Contracts (Regulation) Act, 1956 (“**SCRA**”) have been violated by RHFL.

88. It is trite law that a company being an artificial person cannot act on its own and all the acts of commission and omission on the part of such an artificial person shall necessarily be attributed to the natural persons, who are managing the affairs of such company. In this connection, I note that *Noticee no. 3* was the Non-Executive Director and Chief Financial Officer of RHFL from April 24, 2017 to August 07, 2018 and *Noticee no. 4* has been acting as Executive Director and CEO of RHFL since April 24, 2017. *Noticee no. 3* and *4* were also part of the Credit Committee. Thus, both *Noticee no. 3* and *4* were primarily at the helm of the affairs of RHFL during the relevant period when most of those suspicious and non-genuine loans transactions resulting in the transfer of funds from RHFL to various promoter related entities were undertaken. The active roles played by *Noticee no. 3* and *4* in getting those illicit GPC Loans sanctioned, have also been highlighted by other Senior functionaries of the *Company* in their statements recorded during SEBI's investigation. By such acts and omissions on the part of the *Noticee no. 3* and *4*, who, while being on the Board of RHFL have *prima facie* not shown any regard to the duties bestowed upon them by virtue of their respective appointments on the Board of RHFL, have allegedly violated Regulations 4(2)(f)(ii), (6), (7), (8); 4(2)(f)(iii), (3), (6) & (12) of SEBI (LODR) Regulation read with Section 21 of SCRA.

89. I further note that preparation of books of accounts of a listed company is a very serious responsibility cast on the Chief Financial Officer under various laws & regulations. In the present case *Noticee nos. 4* and *5*, who were under obligation to ensure that true and correct financial information and statements are presented to the Board of Directors of the company for its examination and approval as mandated under Regulation 17 (8) of the LODR Regulations, are instead seen to have provided the certification based on misleading facts, on Financial Reporting and internal controls to the Board of RHFL. Further, *Noticee no. 5* has also signed the Annual Report of RHFL along with *Noticee no. 3* which contained such mis-representation of facts and accounts. The role of CFO assumes greater significance as the person acting as a CFO has to give a compliance certificate to the Board

of Directors to the effect that he has reviewed the financial statements and the cash flow statements to the best of his knowledge and belief and that:

- a. these statements do not contain any materially untrue statement or omit any material fact or contain any statements that might be misleading;
- b. 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.

90. Keeping the aforesaid in view, I can now say that the *Noticee nos. 4 and 5* have not adhered to various stipulations laid down in LODR Regulations which bind them to affirm compliance with the Code of Conduct of the Company, and mandate them to present to the Board, a certification with respect to the financial results of the *Company*, that are supposedly devoid of any mis-leading or false statements, leading to a *prima facie* observation that the said *Noticees* have grossly failed in their statutory duties and have violated Regulation 26 (3) and 33 (2) (a) of LODR Regulations read with Section 21 of SCRA. This apart, *Noticee no. 3, 4 and 5* have allegedly not adhered to the provisions of Regulation 17 (7) read with Schedule II Part A clause (I), (O) of the SEBI (LODR) Regulations, with respect to placing the minimum information before the Board of Directors, as specified in the said Schedule.

91. Similarly, *Noticee no. 6 to Noticee no. 28* primarily being the promoter linked entities which have either acted as conduits to transfer the funds received as GPC loans from RHFL to onward borrowers belonging to the promoter group or have been unjustly benefitted from the end use of those loans transactions undertaken by RHFL through such conduits, have to be held as part of the same scheme and contrivance through which, loan funds of RHFL were deceitfully siphoned off to these entities under the garb of loans. Therefore, the said entities have visibly connived in the execution of the whole scheme of siphoning off funds not only by ignoring the corporate governance standards, details of which have already been critically discussed earlier, but also through their proactive and overt acts of seeking GPC loans, knowing fully well that they did not have any concrete business activities or financial worth or repaying capacity and that the loans being sought

by them were primarily meant for onward transfer to other related entities of the *Company* or its promoter.

92. So far it has been *prima facie* observed that the *Company* and its Chairman & other managerial persons have apparently executed a scheme quite meticulously to divert bulk of the borrowed funds of the *Company* to & for the benefit of promoter group companies through layering of such transactions by indulging in loan transactions with multiple borrowing entities. While translating the scheme into action, even a modicum of due process & diligence or documentation was not followed by the approving authorities at the time of processing/evaluating those GPCL applications as evident from the acts of the *Company* and its loan approving authorities discussed earlier in this order. Needlessly to point out that such acts have been committed by concealing material facts from the stakeholders and by not disclosing the true and correct pictures to the investors at large consequently allowing such siphoning off funds from the accounts of RHFL behind the back of its shareholders, through the conduits of those financially unviable borrowing entities, to enrich a large number of entities connected to the promoters of RHFL.

93. From the records available before me, I find that after conducting the investigation into various complex sets of information and documents including a large number of bank account statements, apart from taking note of important factual highlights of the Forensic Audit Reports, SEBI has been able to gather evidences which make out a strong *prima facie* case against the *Notices* for having conceived and implemented a fraudulent scheme/artifice through which funds of RHFL were successfully siphoned off in the form of a series of GPC loans transactions. Further, as the instant investigation carried out by SEBI impinges upon the murky financial transactions & conduct of a group of entities which *prima facie* acted in unison for mutual benefits, there is a *bonafide* apprehension and genuine possibility that there can be attempts to thwart the regulatory action or erase the traces of such *malafide* scheme, especially when so many *Notices* have been found culpable of siphoning off funds from one of the largest Housing Finance Companies in India. The *prima facie* roles played by RHFL, its Chairman & Key Managerial Persons named above in

this order and also by the conduit as well as beneficiary entities as held out in the foregoing paragraphs, have in fact indicated that the entities named in this order, have acted in a fraudulent manner for the diversion of funds of RHFL. The said acts on the part of RHFL have apparently been committed by the *Noticee no. 4* who was the CEO and an Executive Directors of the *Company* at the relevant time; the CFOs (*Noticee no. 3* and *Noticee no. 5*) who were entrusted with the crucial task of ensuring that accounts of the *Company* reflect true and correct picture and who (*Noticee no. 5*) has certified the Annual Financial Statements that did not present the true and fair picture about the accounts of RHFL and above all, by the *Noticee no. 2* who, by holding the post of Chairman as well as de facto controlling influence over the entire group including RHFL, is seen to have approved loans in a perverse manner in deviation of the stated policy decision of the Board only to provide monetary grants to his own group companies. In this manner, the *Noticee no.2*, by his own acts and conduct, appears to have projected himself as the fountainhead of the scheme to siphon off substantial amounts of borrowed funds from RHFL that could have been prudentially and productively deployed towards genuine lending to needy & qualifying borrowers in the interest of the *Company* and its shareholders. In the present case, the funds that have been siphoned off from RHFL in the form of various loan transactions as unearthed during the investigation are seen to have actually benefitted *Noticee nos. 6 to 28*, with *Noticee no. 2* being the natural beneficiary/promoter of a large number of group entities. By indulging in a scheme as discussed above, the *Notices* herein are also *prima facie* observed to have violated Section 12A (a), (b), (c) of SEBI Act, 1992, Regulation 3 (b), (c), (d), 4 (1), 4 (2) (f), 4 (2) (k) and 4 (2) (r) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (“**PFUTP Regulations**”). The relevant provisions of SEBI Act, 1992, LODR Regulations and PFUTP Regulations, are reproduced hereunder for ready reference:

SEBI Act, 1992

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 recognised 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

LODR Regulations

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) The listed entity shall provide adequate and timely information to recognised stock exchange(s) and investors.

(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.

(h) The listed entity shall make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.

(i) Filings, reports, statements, documents and information which are event based or are filed periodically shall contain relevant information.

(j) Periodic filings, reports, statements, documents and information reports shall contain information that shall enable investors to track the performance of a listed entity over regular intervals of time and shall provide sufficient information to enable investors to assess the current status of a listed entity.

4 (2) (b) *Timely information: The listed entity shall provide adequate and timely information to shareholders, including but not limited to the following:*

(i) sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be discussed at the meeting.

(ii) Capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership.

(iii) rights attached to all series and classes of shares, which shall be disclosed to investors before they acquire shares.

4 (2) (e) *Disclosure and transparency: The listed entity shall ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the listed entity, in the following manner:*

(i) Information shall be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure.

(ii) Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by users.

(iii) Minutes of the meeting shall be maintained explicitly recording dissenting opinions, if any.

4. (2) (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.

(8) Overseeing the process of disclosure and communications.

(iii) Other responsibilities:

(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.

....

17 (7) *The minimum information to be placed before the board of directors is specified in Part A of Schedule II.*

(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.

23 (2) (2) *All related party transactions shall require prior approval of the audit committee*

26 (3) *All members of the board of directors and senior management personnel shall affirm compliance with the code of conduct of board of directors and senior management on an annual basis.*

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.*

(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.

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

(a) The financial results shall be prepared on the basis of accrual accounting policy and shall be in accordance with uniform accounting practices adopted for all the periods.

(b) The quarterly and year to date results shall be prepared in accordance with the recognition and measurement principles laid down in Accounting Standard 25 or Indian Accounting Standard 31 (AS 25/ Ind AS 34 –Interim Financial Reporting), as applicable, specified in Section 133 of the Companies Act, 2013 read with relevant rules framed thereunder or as specified by the Institute of Chartered Accountants of India, whichever is applicable.

(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/herself 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.

(e) The listed entity shall make the disclosures specified in Part A of Schedule IV.

33 (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.

51.(1) *The listed entity shall promptly inform the stock exchange(s) of all information having bearing on the performance/operation of the listed entity, price sensitive information or any action that shall affect payment of interest or dividend or redemption of non-convertible securities.*

SEBI PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly –

(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:—

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

(k) disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading and which is designed or likely to influence the decision of investors dealing in securities

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

94. It is noted that the Chief Executive Officer, as the name itself suggests is the Key Managerial Personnel who supervises the executive functioning of the corporate entity. Similarly, Chief Financial Officer has on his shoulders, the responsibility of preparation of the true and accurate financials of a company and their presentation to the Board. It is noted that multiple obligations have been cast on the CEO/CFO under different governing laws. In this respect, Section 134 of Companies Act, 2013 mandates that the financial statements of a Company shall be approved by the Board of Directors of such company. Further, the said provision mandates that on behalf of the Board, such financial statements shall be signed by the Chairperson (if approved by the Board) or the by two Directors which shall include Managing Director (if appointed) and the CEO, CFO and Company Secretary.

95. From the aforesaid provision, it may be observed that the CEO (if he is a director in the Company) and the CFO are the persons who represents the Board of Directors insofar as they sign the financial statement of a company on behalf of its Board.

96. In continuation of the above sprit of the statute, Regulation 17 (8) of LODR Regulation also provides for furnishing a Compliance Certificate in terms of the Part B of Schedule II to be issued by the CEO and CFO.

97. A perusal of the said Compliance Certificate indicates that both of the aforesaid KMPs have to certify it to the Board of Directors that they have reviewed the Financial Statement and Cash Flow Statement and to the best of their knowledge and belief, such statements do not contain any “materially untrue statement” or “omit” any material fact or “contains any misleading fact”. The said certification further stipulates that the aforesaid statements present a true and fair view of the affairs of the company and are also in compliance with the existing laws and accounting standards. Such a certificate also provides that to the best of the knowledge and belief of aforesaid KMPs, the company has not entered into any transaction which is fraudulent, illegal or violative of its Code of Conduct. This apart, the Certificate has to state that its signatories accept responsibility for establishing and maintaining internal controls for financial reporting and also that they have evaluated the effectiveness of internal control systems related to financial reporting.

98. From the aforesaid provisions, one can observe that the post of CEO and CFO are the two broad pillars for maintaining professional standards in the management of the company. It is an undisputed position that a corporate entity is run by the Board of Directors which may comprise of Executive, Non-Executive and Independent Directors. It is noted that due to involvement of CEO and CFO in the day to day functioning of the company, LODR Regulations has laid down specific stipulation for the certification by CEO and CFO, details of which have been discussed above.

99. In the aforesaid context, the examination of facts as narrated above has elaborately brought out as to how the *Notices nos. 4 and 5*, who were the CEO and CFO respectively during the relevant period, have issued the Certificate envisaged under Regulation 17 (8) for RHFL, which leaves not an iota of doubt that the said certificate has been issued by the aforesaid *Notices* merely as a technical formality without adhering to the above noted regulation in true spirit while issuing the said certificate. It is apparent that despite knowing very well that the financial statements are swarmed with facts that were materially untrue, the said *Notices*, who apart from holding the coveted posts were actively instrumental in the sanctioning of those spurious loans to the conduit GPCL entities. The aforesaid two

Notices have, despite knowing the gross deviations as recorded in the CAMs, have sanctioned loans without providing any justification to overcome those deviations although the borrower entities merely acted as conduits and indulged in onward transfers of those loan funds to promoter related entities. The above stated facts coupled with the way the Chairman of the group, the CEO and the CFOs have conducted themselves in extending gratuitous treatment to the GPCL Borrower entities, gives a clear indication that the destination of the funds lent by the *Noticee no. 1* was already known to the *Noticee nos. 1 to 5* at the time of sanctioning itself. It is apparent that under a well drafted scheme, these *Notices* devised an artifice to ensure the siphoning of funds to the benefit of the promoter related entities by layering the lending operations through GPCL borrower entities. Under the circumstances, concealing such material information which were apparently very much in the knowledge of aforesaid KMPs, cannot be said to be an act that can lead to disclosure of true and fair picture of the affairs of the *Company* in the financial statements. By covering up such loan transactions with potentially promoter linked parties, the CEO has also misrepresented before the Risk Management Committee (RMC) that such GPC loans were in the category of ‘construction finance’ or ‘exposure to commercial real estate’, however in reality, none of the said GPC loan funds was sanctioned or ever used for the said purposes, as stated by the CEO before the RMC.

100. Apart from the above, it is also noted that the Board of RHFL in its Board Meeting held on September 08, 2017 had approved an internal Code of Conduct formulated in compliance with the Regulation 17 (5) of LODR Regulations. The said Code obligates the Directors and Senior Management to viz., use due care and diligence in performing their duties; act honestly and use their powers in good faith; not allow personal interest to conflict with the interest of the Company; not take improper advantage of their position and not to engage in a conduct which would bring discredit to the Company.

101. I have explained at various places in the present order as to how the borrower entities who were connected with each other and also with the promoter group of RHFL, have been extended large amount of funds in form of GPCL. Such loans have immediately

been transferred to promoter related entities by such GPCL Borrower entities. It is also seen as to how the CFO and CEO who were part of the Credit Committee have exercised their powers to sanction those loans, large part of which have soon become non-performing assets for RHFL and yet no concrete steps have been taken to recover those outstanding dues from the borrowers. The CEO cum Executive Director and CFOs have not only failed to observe the desired due diligence but also are found to have used their powers to the detriment of the stakeholders of RHFL. In the process, they have knowingly compromised with all rules and have gone ahead in disbursing loans (disregarding their own internal policy) to entities who were, from day one, expected to default on their repayment and causing irreparable loss to the *Company*. In the process, these *Notices* have intentionally ignored the conflict aspect and have further misrepresented to the stakeholders with untrue and unfair declarations pertaining to the financials of the *Company*. I further observe that the CEO and CFOs who were also under an obligation to prevent any deviation from adherence to the norms of corporate governance which can result in erosion of the wealth of the *Company*, have not acted in good faith protecting the interest of the *Company*, and rather their acts of misconduct in the entire GPCL activities of the *Company*, are observed to be in complete derogation of the rules of ethics laid down in their own Code of Conduct.

102. In the totality of the facts of the case, I can observe that the *Noticee no. 4* and *5*, have deliberately issued the compliance certificate in a perfunctory manner only to show on paper, their compliance to the requirements under the law. Despite being cognizant of the actual facts, a certificate to show that the house is in order, has been issued. One cannot ignore that the aforesaid requirement of law is not merely a technical formality but it is a tool to put the investors/authorities to notice about the fact that in the listed entity, which comprises of the interest of the shareholders; there is no violation of law and the numbers mentioned in the financial statements talk about the actual financial health of the *Company*. I can appreciate that such declarations are meant to empower the small shareholder of the *Company*. To ensure that their shareholding is well protected, such shareholders are

dependent on the financial statements and the certifications, which they believe to have been made in a *bonafide* manner by the functionaries of the *Company* who manage the affairs of the *Company*. However, as seen in the present case, the aforesaid compliances have been made only “in letter” presumably to cover up the ill-intent of such functionaries and their role in sanctioning those infructuous GPC Loans.

103. Based on the factual narratives and deliberations on the conduct of various *Notices* in the foregoing paragraphs, there is a succinctly clear case against the *Company* (*Notice no. 1*) that with the active involvement of the *Notice nos. 2 to 5*, it has indulged into activities of sanctioning and disbursal of loan *sans* any rationale to apparently group related entities. Instances have also been observed where the *Notice no. 1* is seen to have disbursed loan to entities even before according necessary sanction/approval to such loan applications. It is also seen that majority of GPC loans were disbursed to entities which were PILE and were having extremely weak financials, and some of them were incorporated recently having no significant business track record so as to be considered to be eligible for disbursal of loan by any financing company in the normal course of lending. During the relevant year, it has been observed that the *Notice no. 1* has granted loans to entities/borrowers enjoying not only cross shareholding amongst themselves, but also operating from a few common address as well as having common directors on their Board who also happened to be employees of the its promoter related entities. Under the aforesaid facts and circumstances, it may well be alleged that the *Notice no. 1* has knowingly in a pre-mediated manner transferred its borrowed funds to its related entities in the name of GPC loans without following even the basic norms of due diligence.

104. In order to conceal the correct facts from the shareholders and to portray misleading status about loans onward disbursed to the Promoter group companies, the *Notice no. 1* has gone on to show that the amounts disbursed to a number of promoter group companies have been repaid by such onward borrower entities to the GPCL Borrower entities by issuing 0% Unsecured Optionally Convertible Debentures (OCDs), while in reality, the *Company* could not recover any amount from the corresponding loans

disbursed to the GPCL borrower entities and the said GPC Loans had to be declared as NPA in the books of accounts of RHFL. The *Notices nos. 1 to 5* have concealed these materials facts from the investors as well.

105. The *Notice no. 1* is also alleged to have acted not only in gross derogation of its own lending policy and procedure, but also in gross violation of provisions of securities laws, where it has been observed that in order to benefit certain promoter related entities, a conduit layer of GPC loans has been created only to hoodwink the public and other stakeholders, since the *Notice no. 1* was well cognizant of the fact that the loans being disbursed to the GPCL borrowers were not meant for their working capital requirement but were destined to reach the hands of the promoter related entities. Further, in a blatant display of impropriety and dishonesty, the *Notice no. 2* (not even holding the post of an Executive Director in the Company) by misusing his controlling powers, is seen to have sanctioned loans to certain connected entities. The said facts have also been concealed from the investors who have also been not informed about the waiver of the loan process and loans of substantial sums granted to promoter related entities.

106. From a perusal of the provisions of LODR Regulations, it is evident that these regulations bind the management with an obligation of refraining from misrepresentation and at the same time cast a duty on them to act in a manner to ensure that the information disclosed to the investors are not misleading. The provisions further bind the listed entity to follow the obligations not only in letter but also in spirit and while ensuring the compliances of such obligation, the entity must consider the interest of all stakeholders. Whereas, in the present case the facts as narrated above, unmistakably show the acts of the *Company* being contrary to the aforesaid regulatory provisions. The *Notice no. 1* is seen to have not only failed miserably in disclosing the true and correct information to the investors but also the manner in which it has indulged in those GPC lending activities with the promoter linked/group companies, its acts sufficiently indicate an intentional concealment of correct information from the stakeholders thereby deliberately acting to the detriment of their interest. The provisions of LODR regulations further call for disclosure of

sufficient information to enable investors to assess the status of the company and take an informed decision, whereas in the instant matter, the *Company* is observed to have concealed material information from its stakeholders while disclosing the periodic financials of the *Company* and knowingly furnished misleading information especially with respect to its loan portfolio for their consumption. It is a sacrosanct duty of the *Company* to ensure that the financial results do not contain any false, misleading or specious statements or figures and do not omit any material fact which may render the statements or figures contained therein misleading, however, it is observed that no such material facts as pointed out above appear to have been disclosed and shared with the investors. The securities law expects a listed company to monitor and manage all its internal conflicts of interests at every level of management & governance, however in this case, the *Company* itself has engaged in acts which amounted to misuse of corporate assets and abuse of related party transactions, and the facts so unfolded by the investigation reveal *prima facie* that the *Company* has flagrantly and consistently engaged in dealings that are prejudicial to the interest of the *Company* and its shareholders. The Board of Directors are expected to maintain high ethical standards and to take into account the interests of stakeholders while managing the affairs of the *Company*, which is observed to be conspicuously absent while managing the affairs of RHFL. The investigation has abundantly revealed that the aforesaid *Notices* have apparently performed their respective parts in mis-managing the affairs of the *Company* contrary to the interest of its shareholders, and have engaged in activities under a pre-conceived scheme of sanctioning and disbursing loan to entities without following any due process. The *Notices* have further gone to the extent of providing loans against its own established lending policy approved by the Board by layering the transactions in such way that on paper, it has shown to have advanced loans to entities supposedly not directly related to the lender (RHFL) but in effect such loans are seen to have travelled via such seemingly unrelated conduit entities (GPCL borrowers) and reached ultimately the doorsteps of entities that are closely related to the promoter.

107. The aforesaid deviant acts on the part of the above *Notices* are not only alleged to be acts in derogation of the internal policy of the *Company*, but in gross violations of the provisions of the Securities laws including the LODR Regulations in terms of which the KMPs and the persons managing the affairs of the *Company* are required to act in good faith protecting, preserving and promoting the interest of the stakeholder. In contrast to the aforesaid regulatory and legislative expectations, the facts narrated above pertaining to the lending activities of RHFL would apparently show, that the first five *Notices* (*Notice nos. 1 to 5*) have in connivance with the other *Notices* (i.e. *Notice nos. 6 to 28*) knowingly resorted to acts detrimental to the interest of the investors and shareholders of the *Company* and have intentionally disbursed huge amounts of GPCL loans, whose ultimate fate was very much known from the very day of approval of such loans and quite predicatively, such loans were destined to be defaulted and to end up being declared as NPA, as seen in the instant matter and therefore, these *Notices* are alleged to be held responsible for violations of provisions of the SEBI Act, 1992, LODR Regulations and PFUTP Regulations.

108. Having observed *prima facie* that the acts of the afore-noted five *Notices* have, by their fraudulent ways of managing the lending activities of RHFL as explained at length in the foregoing paragraphs, *prima facie* committed serious breaches of various provisions of securities laws, I am of the view that such violations by the *Notices* deserve to be met with some urgent remedial action so as to prevent further misuse and abuse of the securities market by these *Notices*. At this stage, I find it apt to refer to the judgment of the Hon'ble Supreme Court of India in the matter of *N. Narayanan Vs. Adjudicating Officer, Securities and exchange Board of India (Civil Appeal Nos 4112-12 of 2012- Date of Decision- April 26, 2013)*, in which, while highlighting as to how the investors are lured by the false financial statements presented by the *Company* and further while providing guidance to situations warranting regulatory interference, the Hon'ble Apex Court have observed *inter alia* as:

“The object of the SEBI Act is to protect the interest of investors in securities and to promote the development and to regulate the securities market, so as to promote orderly, healthy growth of

securities market and to promote investors protection. Securities market is based on free and open access to information, the integrity of the market is predicated on the quality and the manner on which it is made available to market. 'Market abuse' impairs economic growth and erodes investor's confidence. Market abuse refers to the use of manipulative and deceptive devices, giving out incorrect or misleading information, so as to encourage investors to jump into conclusions, on wrong premises, which is known to be wrong to the abusers. The statutory provisions mentioned earlier deal with the situations where a person, who deals in securities, takes advantage of the impact of an action, may be manipulative, on the anticipated impact on the market resulting in the "creation of artificiality". The same can be achieved by inflating the company's revenue, profits, security deposits and receivables, resulting in price rise of scrip of the company. Investors are then lured to make their "investment decisions" on those manipulated inflated results, using the above devices which will amount to market abuse."

109. Further, the Hon'ble SAT in the matter of *V. Natarajan vs. SEBI*, in Appeal No.104 of 2011 (order dated June 29, 2011), has held as

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

110. It is noted that the aforesaid alleged violations by the *Notices* pertain to the financial year 2018-19, however, the investigation into such layered loan transaction are always fraught with its own complexities and limitations and as the records before me suggest, many entities were not coming forward to furnish the requisite information for a long time on one pretext or the other and such non-cooperation had, in one way or the other have adversely impacted on the flow of investigation. Further, during the last two crucial years the country has been reeling under the pandemic of COVID- 19 which had also put the investigation out of track for a long period, putting impediments in completion of investigation. Nevertheless, the regulator cannot be oblivious to such serious violations and delinquent conduct being perpetrated by the senior functionaries & KMPs including the group Chairman leading to such deplorable corporate governance in the affairs of the *Company* (*Noticee no.1*). The Regulator cannot afford to look the other way after witnessing the afore-discussed *prima facie* and yet grave acts of commission and omissions on the part of various entities named in this order, which certainly call for passing of appropriate interim directions to meet the urgency of preventing such grave violations and foul plays from being further perpetuated by these errant entities in managing the business activities of RHFL. Under such pressing facts and circumstances of the matter, I observe that passing of *interim* directions to the entities who are responsible for the aforesaid sorry state of affairs in the *Company* through their fraudulent actions in the business affairs of RHFL, is quite essential at this stage so as to immediately protect the funds that have already reached the accounts of the promoter related entities (from the accounts of RHFL) because of the collusive acts perpetrated by the *Notices* in the affairs of RHFL.

111. The events and transactions surrounding the lending activities by RHFL that have been chronicled in the foregoing paragraphs especially in the context of the GPCL dealings with the entities that are potentially linked to the promoters as well as the entities that are part of the promoter group leave a tell-tale sign of extremely poor management and governance of RHFL. In this scenario, the group Chairman, the CEO and the CFOs, who were at the helm of the affairs of the listed Corporate entity have, through a well-crafted

design, not only successfully mis-utilised the precious borrowed funds of the *Company* for unjust enrichment of promoter group companies (including the companies in which *Noticee no. 2* is a significant economic beneficiary) behind the back of their shareholders, but also have concealed the true and correct financials of the *Company* from the knowledge of the investors deterring them from taking an informed decisions about the RHFL. The GPC loans that have been extended to entities which are manifestly and even admittedly connected with RFHL either directly or indirectly, were first advanced to such entities to keep the regulators, auditors and shareholders in dark by camouflaging such loans as business loans extended by a Housing Finance company to supposedly unrelated entities ; but eventually, such funds were transferred onwards to promoter related entities. In an egregious move, even after categorical decision of Board of Directors to stop granting of further such loans, the Chairman of the Group (*Noticee no. 2*) chose to sanction such loans in his personal capacity.

112. As observed by me earlier, in order to protect the rights of the shareholders, various corporate governance norms have been laid down both under the Companies laws and in the Securities laws. In essence, such norms revolve around transparency, fairness and accountability. By laying down such norms, the Senior Management and other functionaries of the corporate entity have either been assigned specific set of standards & code of conduct to be followed or general guiding principles have been introduced for their conduct so that robust corporate governance practices are inculcated in the listed companies paving the path for conducive growth of the corporate entities, within the four corners of laws, and ethical standards. Needless to say that adherence to such standards in letter and spirit is *sine qua non* of a well governed company.

113. Various enactments like Companies Act, 2013, SEBI (LODR) Regulations, 2015 etc., have laid down norms and standards for ensuring good corporate governance in the listed companies. Such provisions are amended time and again to cope with the dynamic needs of the corporate world and market. Such regulatory provisions deal with various aspects of corporate functioning including appointment of Independent Directors,

appointment & working of various committees like Nomination & Remuneration Committee, Risk Management Committee, Audit Committee and also matters pertaining to conflict of interest and related party transactions etc. Besides, specific provisions to deal with specific corporate conducts like preparation & audit of books of accounts, responsibilities of directors, operational transparency requirements, due diligence, code of conduct for Directors and KMPs etc., have also been laid down. The regulations also stipulate that the listed entity would include a statement on its internal code of governance in the Annual Report for the benefit of its shareholders and general investing public.

114. I observe that despite bestowing a comprehensive regulatory frame-work to strengthen the corporate governance of listed companies, sometimes certain entities acting in collusion, conceive an ill motivated scheme, to deceitfully deviate from the well laid out regulatory norms of corporate governance & procedures and to transgress into the prohibited territory of unfair, unlawful as well as unethical business practices as has been witnessed in the present case.

115. I note that the SEBI (LODR) Regulations prescribe for audit of books of accounts by independent and qualified auditors to whom the management of the company must extend active support so that they can complete the audit in an independent manner. However, in the present case, the Auditor was not provided satisfactory answers/information by the *Company* so that the books of accounts could have been audited independently. The Regulations also cast an obligation on the listed company for making specified disclosures and comply with all the norms & stipulations in letter and spirit by taking into the interest of the shareholders. However, all the acts pertaining to GPC lending have been primarily committed towards serving the self-seeking interest of the promoters and promoter group entities actively aided & assisted by the key functionaries of the *Company* who were otherwise responsible for safeguarding the sanctity of good corporate governance in the *Company* to serve the interest of its shareholders.

116. Further, the provisions pertaining to monitoring, approvals and disclosures of related parties' transactions have also been bypassed by transferring funds to conduit

entities who in turn transferred the funds immediately to promoter related entities. In the absence of any due diligence whatsoever or operational transparency worth its name, even large sums of loans are seen to have been sanctioned by the Chairman of the Group unperturbed by the lack of power to do so, in terms of the internal delegation of credit approval power. The senior employees of the *Company* have admitted before SEBI as to how the instructions for documentation/sanction of loans were flowing from the CFO itself, who in fact has a statutory responsibility to ensure that appropriate level of due diligence are put in place for protecting the wealth of the shareholders. The required affirmations about the compliances with processes & procedures have also been done by CEO and CFO, who are apparently seen to have acted in collusion with others to fructify the devious scheme to siphon off money from RHFL. The Executive Director who was part of the Risk Management Committee and Credit Committee is seen to have sanctioned GPC loans to promoter group/linked entities by glaringly accommodating gross deviations from established processes & documentations, thereby sacrificing his sacrosanct mandate as a CEO for ensuring the integrity of accounting and financial reporting systems of the *Company*. To sum up, all the aforesaid *Notices* have played their respective roles in unison duly aided and abetted by other *Notices* through a collusive nexus, to translate a pre-ordained scheme into action resulting in siphoning off of huge amounts of funds from RHFL's accounts, a major portion of which had to be declared NPA soon after their sanctions.

117. It is noted that generally, a professionally managed company is governed by its Board of Directors, and in case of any malfeasance by the *Company*, the Board of Directors is held accountable apart from the management which supported commission of such contraventions. However, in case of RHFL it is noted that one individual person (*Noticee no.2*) who controls the *Company* due to his position as a promoter and controlling shareholder by way his direct & indirect shareholding, is seen to be exercising unfettered powers, and the KMPs of the *Company* like the Executive Director and CEO (*Noticee no. 4*) and the CFOs (*Noticee no. 3 and 5*), instead of bringing such misdeeds to the notice of the

Board of Directors/Regulators, are *prima facie* found to be hand in gloves with the *Noticee no. 2*, in siphoning off the borrowed funds of the *Company* to other financially weak promoter group companies which is evident at different stages of approval of those GPCL transactions. Under the circumstances it becomes incumbent on SEBI to take necessary preventive measures against the *Company* (*Noticee no.1*) and the other four individual *Noticees*, viz: *Noticee nos. 2 to 5* who have apparently played the most crucial role in deliberately defrauding the shareholders of the *Company* and but for whose active role, the funds of RHFL would not have been fraudulently transferred for the benefit of the promoter group companies. In my considered view, there is an urgent necessity to put some restraints at least on the afore-noted five *Noticees* so as to prevent them from causing further fraud on the shareholders & damage their hard-earned investment in the *Company* and also to stop these entities from perpetuating further irregularities & breaches in the corporate governance of RHFL in particular and in the securities market in general. Given the serious nature of violations & misconduct committed by the *Company*, there is a likelihood that after causing such fraudulent siphoning off its borrowed funds, the *Company* may resort to capital raising activities again for fulfilling similar nefarious intent of misusing such funds by way of diversion to financially weak entities of promoters group, which if allowed to take place, would certainly pose an imminent threat to the securities market.

118. Looking at the conduct and propensity of the *Company* to indulge in such activities of diversion of funds and misrepresentation of books of accounts, falsification of financial statements resulting into non-disclosure of true & fair information to the public at large, and also considering the collective misconduct exhibited by the Key Managerial Persons of the *Company*, there is an urgent need that the *Company* should be prevented from pursuing such despicable activities which are visibly in violation of securities laws. As regards the individual entities (*Noticee nos. 2 to 5*), it is noted that the investigation of SEBI has already brought to light as to how the *Noticee no. 2*, (the Promoter/Chairman and the person under whose control and influence the *Company* has acted), has conducted himself in exceeding his remit by sanctioning loans in gross deviations of norms (internal as well as regulatory)

and also by going against the explicit directives of the Board of Directors by virtue of which such loans ought to have been stopped from being sanctioned, he sanctioned further GPCL to various connected entities. Such a misconduct on the part of *Noticee no. 2* as the Chairman of the *Company*/Group smacks of fraudulent intent of the top management of the *Company* first, to divert the borrowed funds of the *Company* meant to be advanced to genuine 3rd party borrowers to the coffers of various promoter group entities under the garb of series of sham GPC lending and then to cover up the losses & NPA arising out of such transactions by concealing actual financial health of the *Company* from the shareholders and general investing public, who could never know the real financial status of RHFL by looking at the cooked up books of accounts presented to them through the stock exchanges.

119. The other *Notices* (*Notice nos. 3, 4 and 5*) being the KMPs of the *Company* are also found to have exceeded their limits and in collusion with the top management (*Noticee no.2*), they have actively joined hands in the scheme of funds diversion from RHFL forgetting their bounden duties towards the shareholders. Thus, these KMPs have also alleged to have contributed towards the diversion of funds and also to the misrepresentation of accounts as well as false disclosures to the public.

120. Under the circumstances, there is a heavy preponderance of probabilities that the *Company* and the individuals comprising the Senior Management (named above), unless specifically prohibited, shall perpetuate their ill intent by indulging in such malpractices, which are *prima facie* injurious to the SEBI Act, 1992 and regulations made thereunder.

121. Keeping in view the foregoing factual deliberations involving loans transactions of RHFL and the observations thereon recorded in the preceding paragraphs and after being cognizant of the fraudulent manner in which the *Notices* have conducted their affairs to swindle huge sums of borrowed funds of RHFL for the benefit of promoter linked entities of the *Company* in flagrant violations of all canons of corporate governance, in order to protect the interests of shareholders of the said company and that of other investors and the integrity of the securities market, I, in exercise of the powers conferred upon me under

Sections 11, 11(4) and 11B (1) read with Section 19 of the SEBI Act, 1992 hereby issue by way of this *interim order cum show cause notice*, the following directions, which shall be in force until further orders: -

- a) The *Notices nos. 1 to 5* are restrained from buying, selling or dealing in securities, either directly or indirectly, in any manner whatsoever until further orders. If the said *Notices* have any open position in any exchange traded derivative contracts, as on the date of the order, they can close out /square off such open positions within 3 months from the date of order or at the expiry of such contracts, whichever is earlier. The said *Notices* are permitted to settle the pay-in and pay-out obligations in respect of transactions, if any, which have taken place before the close of trading on the date of this order.
- b) *Notice nos. 2 to 5* are hereby restrained from associating themselves with any intermediary registered with SEBI, any listed public company or acting as Directors/promoters of any public company which intends to raise money from the public, till further orders.

122. The foregoing *prima facie* observations contained in this Order, are made on the basis of the material available on record. The said *prima facie* findings shall also be considered as a show cause notice and the afore-said *Notices* are directed to show cause as to why suitable directions/prohibitions under Section 11 (4) and 11B of SEBI Act, including the directions of restraining them from accessing the securities market including buying, selling or otherwise dealing in securities in any manner whatsoever, directly or indirectly, for a specified period and further restraining them from associating with any listed company and any registered intermediary, should not be issued against them. The *Notice nos. 3, 4 and 5* are also called upon to show cause as to why any other suitable directions including directions of recovery of remuneration (fully or partly) as paid by RHFL during the period under investigation, be not issued against them.

123. Further, the *Noticee nos. 6 to 28* are hereby called upon to show cause as to why suitable directions in the nature of restraining/prohibiting them from accessing the securities market including buying, selling or otherwise dealing in securities in any manner whatsoever, directly or indirectly, for a specified period should not be issued against them for the above acts of aiding and abetting in commission of the alleged violations committed by *Noticee nos. 1*.

124. *Noticee no. 3* is also hereby called upon to show cause as to why inquiry should not be held against him in terms of Rule 4 of Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and penalty be not imposed on him under Section 11 (4A), 11 B (2) read with Section 15A (a) of SEBI Act, 1992 for allegedly making a false statement during the investigation that he was never associated with Reliance Media Works Limited.

125. The *Notices (Noticee nos. 1 to 28)* are further called upon to show cause as to why inquiry should not be held against them in terms of Rule 4 of Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and penalty be not imposed on them under Section 11 (4A), 11 B (2) read with Section 15HA and/or 15HB of the SEBI Act, 1992 for the above alleged violations of provisions of SEBI Act, 1992, LODR Regulations and PFUTP Regulations.

126. In this context, the concerned *Notices* may, within 21 days from the date of receipt of this Order, file their reply/objections, if any, to this Order and may also indicate whether they desire to avail an opportunity of personal hearing on a date and time to be fixed in that regard.

127. It clarified that the aforesaid restraint imposed on the *Noticee no. 1* shall not come in the way of any Resolution/Revival plan approved or to be approved, under any law.

128. The above directions shall take effect immediately and shall be in force until further orders.

129. A copy of this order shall be served upon Entities, Stock Exchanges, Banks, Registrar and Transfer Agents and Depositories for necessary action and compliance with the above directions.

-SD-

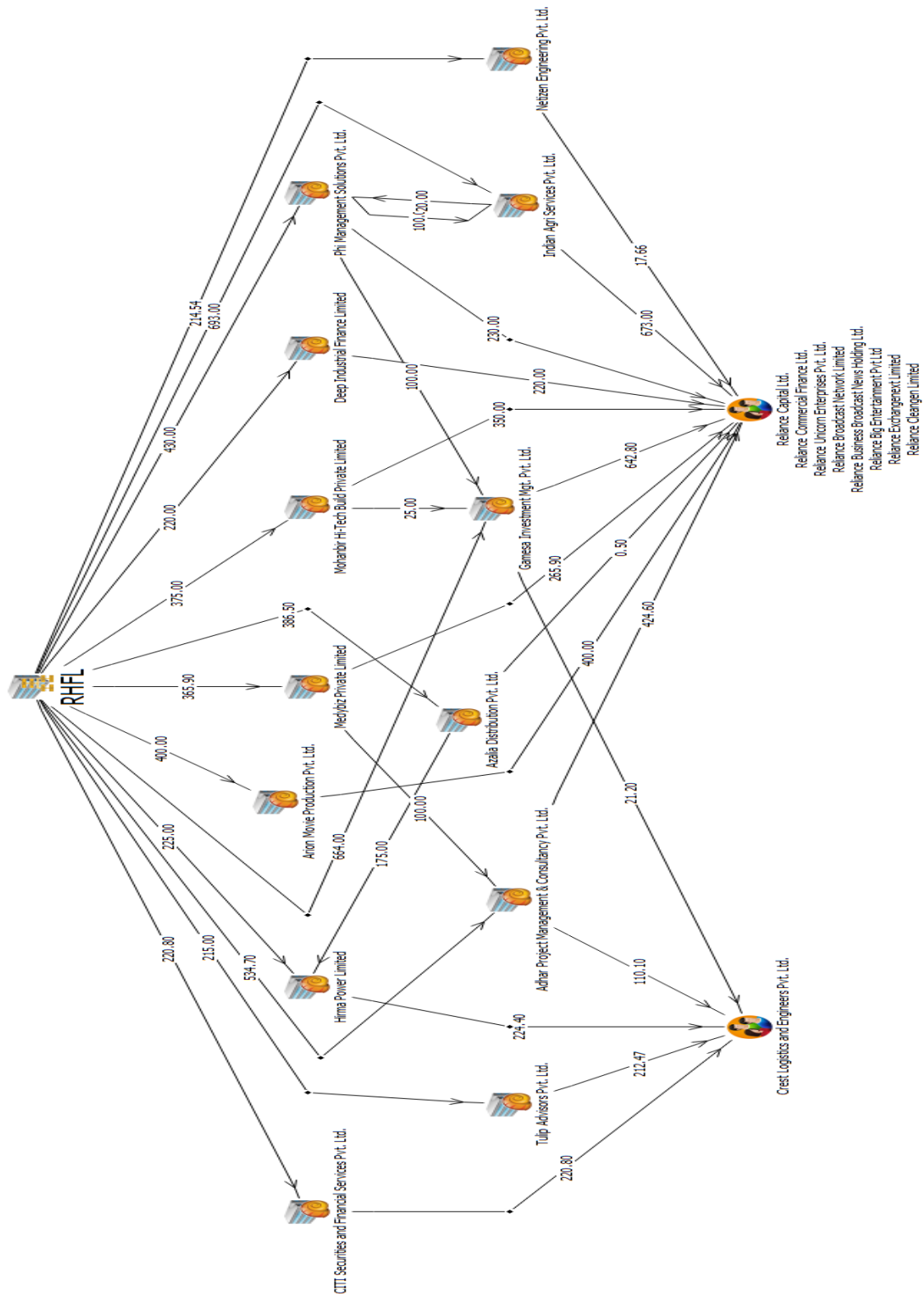
DATE: FEBRUARY 11, 2022

S. K. MOHANTY

PLACE: MUMBAI

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA



Annexure A - Pictorial representation showing fund flow from RHFL to GPCL Borrower entities and onward borrowers