NSE

India@75 A guiding light, shining bright

National Stock Exchange of India

Circular

Department: Investigation	
Download Ref No: NSE/INVG/56541	Date: April 28, 2023
Circular Ref. No: 109/2023	

To All NSE Members,

Sub: **SEBI Order regarding Ankur Agarwal in the matter of Arvind Remedies Limited**

SEBI vide its Order No. WTM/SM/ IVD/ ID18/ 26064/ 2023-24 dated April 28, 2023, has hereby restrained following entitiy from buying, selling or or otherwise dealing in securities, directly or indirectly, and associating with the securities market in any manner for a period of six months from the date of SEBI Order.

Sr. no.	Name	PAN
1.	Ankur Agarwal	ADHPA0011F

Further, all open positions, if any, of the Entity in the F&O segment of the stock exchange, are permitted to be squared off, irrespective of the restraint/prohibition imposed by SEBI Order

The order comes into force with immediate effect.

The detailed order is available on SEBI website (http://www.sebi.gov.in).

Further, the consolidated list of such entities is available on the Exchange website http://www.nseindia.com home page at the below mentioned link:

https://www.nseindia.com/regulations/member-sebi-debarred-entities

Members are advised to take note of the above and ensure compliance.

In case of any further queries, members are requested to contact the following officials:

National Stock Exchange of India

Mr. Rajkumar Jain (Extension: 23457), Mr. Anand Jangir (Extension: 22385)
Direct No: 022-26598417/18 Fax: 022-26598195

For and on behalf of
National Stock Exchange of India Limited

Anand Jangir
Manager

ANNEXURE: SEBI Order regarding Ankur Agarwal in the matter of Arvind Remedies Limited

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: S K MOHANTY, WHOLE TIME MEMBER

ORDER

Under Sections 11, 11(4), 11B (1) and 11B (2) of the Securities and Exchange Board of India Act, 1992

In respect of:

S. No.	Name of the Noticee	PAN
1.	Ankur Agarwal	ADHPA0011F

In the matter of Arvind Remedies Limited

Background

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI") received a reference from Punjab National Bank (hereinafter referred to as "PNB" or "the Bank") forwarding a copy of the forensic audit report prepared by M/s Maharaj N R Suresh & Co. dated May 23, 2015 (hereinafter referred to as the "*Forensic Audit Report*"), highlighting irregularities in financial statements and inflated sales / profits by Arvind Remedies Limited (hereinafter referred to as "***ARL***" or "***Company***"). Additionally, SEBI had also received two complaints - one from Mr. R.K. Sinchal dated November 27, 2015 and another one from Ms. M Rekha Reddy dated September 16, 2016, *inter alia*, alleging that the promoters including the CEO of the *Company* had resorted to publication of false results for the last few years to artificially inflate the stock and then sold their shares at the manipulated stock price while in possession of certain eminent and pertinent information that was not generally available to the investors of the securities market.

2. Subsequent to the receipt of the aforesaid documents and complaints, SEBI undertook a preliminary examination and based on the findings of the preliminary examination, SEBI passed an *ad interim ex parte* order dated February 16, 2017 (hereinafter referred to as the "***interim order***") against the *Company* and its Managing Director (MD) observing their acts to be *prima facie* in violation of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the "***SEBI Act, 1992***") and SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as the "***PFUTP Regulations, 2003***").

3. Subsequently, a detailed investigation was undertaken to ascertain as to whether the books of accounts of *ARL* were genuine and showing the correct figures or the financials in the books of accounts of *ARL* for the Financial Years 2011 to 2015 were manipulated and whether promoters of the *Company* have indulged themselves in insider trading while off-loading their shares of the *Company* during the period of April 01, 2010 to June 13, 2016 (for convenience **"Investigation Period"**). Following were, *inter alia*, the observations of the Investigation conducted by SEBI:

a) It is noticed that *ARL* had inflated both purchases and sales by entering into transactions with Connected / Controlled Entities and further resorted to the acts of making payments with an intention to get the same reflected/recorded in the banks statements. Subsequently, these payments were either reversed or routed in a circular manner without movement of goods and the same facts was observed in the *Forensic Audit Report*. As a result of the same, the books of account of *ARL* as shown and disclosed to the public were in reality not showing the true, correct and fair statement rather the manipulated figures were disclosed for financial years ending March 31, 2012, March 31, 2013, March 31, 2014 and March 31, 2015
b) It was also revealed that that *ARL* prepared different sets of financial statements for financial years ending March 31, 2011, March 31, 2012 and March 31, 2013 and projected untrue financial statements to various

stakeholders which demonstrated its intention to deceive by misleading its shareholder.

c) The sales/purchases of goods were disclosed by *ARL* as having been made with certain Connected / Controlled Entities. For all these Connected / Controlled Entities, who were incorporated during the Financial Years 2010–11 and 2011–12, the bank accounts were opened only for the purpose of showing fictitious transactions with *ARL* and not for any actual business purpose. Further, significant cash withdrawals were observed in the said bank accounts.

d) As the *Company* had failed to present true and fair financial statements and had executed transactions which were non-genuine and tantamount to misrepresentation of the accounts/ financial statement, such financial statements were price sensitive in nature, in terms of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as the "***PIT Regulations, 1992***"). Investigation observed that certain promoters of the *Company* and their promoter connected entities had violated provisions *PIT Regulations, 1992* while off-loading shares of *ARL.*

e) It was noticed that *Noticee* was holding position of Directors in the *Company* during the Investigation Period. By virtue of holding executive position in *ARL* during the period in which books of account of *ARL* were misstated, *Noticee* is observed to have violated section 12A(a), (b), (c) of the *SEBI Act, 1992* and regulation 3(b), (c), (d), 4(1), 4(2)(f), (k) and (r) of the *PFUTP Regulations, 2003* as the false projection of sale or purchase of goods and raw material and the consequent manipulation in the finances coupled with publishing untrue financial statements of *ARL* have potential to influence the investment decisions of the investors.

Show Cause Notice, Hearing and Replies

4. The above findings of the Investigation led to the issuance of a common Show Cause Notice dated June 23, 2020 (for convenience **"SCN"**) to 43 entities (including the *Noticee*), asking them to show cause as to why appropriate directions under Sections 11B (1) and 11(4) read with Section 11(1) of the *SEBI Act, 1992* including directions for imposing penalty under Sections11(4A) and 11B (2) r/w Section 15HA of *SEBI Act, 1992* and r/w the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 should not be issued against them.

5. Subsequent to above, after giving the opportunity of personal hearing, SEBI passed order dated August 24, 2022 (hereinafter referred to as "*Final Order*") with directions against all the 43 entities.

6. Later, it was brought to the notice of SEBI that the directions that were ought to be issued against the present *Noticee* were inadvertently issued against one Mr. Ankur Agarwal (a person with the identical name) but having different PAN AHCPA3196L. It was also noted that due to certain inadvertent errors, the whole proceedings were conducted against wrong Mr. Ankur Agarwal having PAN AHCPA3196L. Consequently, having realised the error, an order dated October 21, 2022 was passed whereby directions passed against the wrong Mr. Ankur Agarwal having PAN AHCPA3196L were revoked.

7. Later, SEBI made an attempt to serve the SCN to the correct Mr. Ankur Agarwal, *Noticee* in the instant proceedings and the same was served vide letter and email dated November 14, 2022. *Noticee* vide email dated November 18, 2022 acknowledged the receipt of the SCN and requested for the annexures to the SCN. In this regard, I note that vide letter dated November 22, 2022, a CD containing the annexures was sent to the *Noticee*. Thereafter, vide letter dated December 01, 2022, *Noticee* submitted his reply to the SCN. Subsequently, in compliance with the principles of natural justice, an opportunity of personal hearing was accorded to the *Noticee*, which was attended by the *Noticee* through Webex (video conferencing) and arguments were made on the lines of reply filed with SEBI. After perusing the written replies filed by the *Noticee* in response to the allegations made in the SCN as well as by way of his arguments during the hearing, I summarize his replies hereunder:

a) *Noticee* was associated with M/s Coronet Labs Pvt. Ltd as a non-financial promoter director. Subsequently, M/s Coronet Labs Pvt. Ltd was acquired by *ARL* on 17.08.2011 and pursuant to which the *Noticee* was appointed as Executive Director Technical / Operations in *ARL* with effect from 18.04.2012. He resigned as Director of the Company on 14.11.2014.
b) The key responsibility areas of *Noticee* in *ARL* were (i) getting third party orders to keep the plant going; (ii) managing third party orders; (iii) day-to day production activities and (iv) all non-financial activities, etc. He was never involved financial activities such as finance procurement, banking activities, auditing, declaration of accounts, financial compliances, issue of shares or trading of shares, etc.

Consideration of Issues and Findings

8. Considering the findings of Investigation, the allegations levelled against the *Noticee* in the SCN based on such findings and the explanations offered by the *Noticee* through his written submissions to the SCN as well as during the personal hearing, I find that the following issue require consideration:

Whether the acts of Noticee regarding publishing of untrue financial statements of ARL have resulted in violations of the provisions of Section 12A (a), (b), (c) of the SEBI Act, 1992 and regulation 3, (b), (c), (d) and regulation 4 (1) and 4 (2) (f), (k) and (r) of SEBI (PFUTP) Regulations, 2003?

9. I note that the SCN has alleged that certain acts of the *Noticee* were observed to be in violations of various provisions of *SEBI Act, 1992 and PFUTP Regulations 2003*. Before, before moving forward to examine as to whether the acts of the *Noticee* were in violations of the alleged provisions of law, it would be proper to visit the afore-stated regulatory provisions which are produced hereunder for ready the 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 recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

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

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

PFUTP Regulations, 2003

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

(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.

10. Moving on to the allegations made in the SCN regarding the aforesaid issue, I note that the SCN has alleged that during the Investigation Period, *ARL* had inflated both purchases and sales by entering into transactions with Controlled / Connected Entities and making entries in bank statements which were either reversed or routed in a manner so as to show the above transactions as genuine one. Further, it has been brought out in the investigation that the sale purchase shown by the *ARL* were without having support of movement of goods, resultantly, the books of account of *ARL* were noticed to be not disclosing the true, correct and fair statement for financial years ending March 31, 2012, March 31, 2013, March 31, 2014 and March 31, 2015. It is also noticed that *ARL* has prepared different sets of financial statements for financial years ending March 31, 2011, March 31, 2012 and

March 31, 2013 and projected untrue financial statements to various stakeholders allegedly portraying the intent to deceit the stakeholders and investors of the market. Based on the above facts, SCN has alleged that the *Company* alongwith its board of directors (including *Noticee*) has engaged in acts of inducing/influencing the investment decisions of the investors by way of publishing untrue, unfair, distorted, wrong and false as well as inflated financial statements of *ARL* and thereby allegedly have acted in violation of the above mentioned *PFUTP Regulations, 2003.*

11. In this regard, on perusal the records including the *Forensic Audit Report*, it is noted that in its Annual Reports, *ARL* had posted inflated figures of sales and purchases of goods. The Investigation reveals that the sales and purchase were made with certain entities which are noticed to be connected and controlled by *ARL* itself. In this respect, the aforesaid sales/purchases of goods as were disclosed by *ARL* were entered into and transacted with the following entities:

- Preventive Pharmaceuticals Private Limited;
- Aroma Remedies Private Limited;
- Holy Remedies Private Limited;
- Zurich Bio Tech Pharma;
- Venus International Private Limited;
- Cosmic Remedies Private Limited;
- Avathar Pharmaceuticals Private Limited;
- Bright Medicure Private Limited;
- Maximus Wellnus Drugs Private Limited;
- Elixir Life Science Private Limited;
- Mascot Machines Private Limited;
- Matrix Device and Mechanism Private Limited;
- Zeal Hi-Tech Engineers Private Limited

For the purpose of convenience, the aforesaid entities are together referred to as "*Controlled / Connected Entities*" of *ARL*. I note from the records available before me that there were frequent bank transfers between *Controlled / Connected Entities* and *ARL*. I also note that there were regular bank transfers amongst these *Controlled / Connected Entities.* A few bank transitions of *ARL* and *Controlled / Connected Entities* as retrieved from the respective bank accounts are tabulated below:

Table no. 1

Date	Bank Account No.	Entity name	Counter Party - Connected Entity	Dr. Amt	Cr. Amt
05/04/2011	841271906	Preventive Pharmaceuticals Private Limited	*ARL*	-	2,11,53,124.00
04/04/2012	0007-W10851-050	Aroma Remedies Private Limited	Mascot Machines	-	89,40,230.00
04/04/2012	0007-W10851-050	Aroma Remedies Private Limited	Elixir life Science	-	10,235,950.00
04/04/2012	0007-W10851-050	Aroma Remedies Private Limited	*ARL*	8,735,650.00	-
04/04/2014	602005118053	Holy Remedies Private Limited	*ARL*	10,02,400.00	-
27/04/2011	910020028351986	Zurich Bio Tech Pharma	*ARL*	-	54,05,259.00
09/10/2014	603106263960	M/s. Venus International Enterprises Pvt ltd	*ARL*	17,58,350.00	-
27/04/2011	902940702	Cosmic Remedies Private Limited	*ARL*	-	51,41,024.00
27/12/2013	112109000133356	Avathar Pharmaceuticals Private Limited	*ARL*	-	62,81,182.00
17/12/2011	0511132788	Bright Medicure Private Limited	Cosmic Remedies Private Limited	-	510,244.00
30/12/2011	0511132788	Bright Medicure Private Limited	Matrix Device And Mechanism	6,702,500.00	-
26/12/2011	669011000320	Maximus Wellnus Drugs Private Limited	*ARL*	-	7,431,500.00
26/12/2011	669011000320	Maximus Wellnus Drugs Private Limited	Zurich Bio Tech Pharma	7,430,500.00	-
04/04/2012	669011000297	Zeal Hi-Tech Engineers Private Limited	*ARL*	-	7,292,454.00

12. The details of sales/purchases of goods as alleged to have been undertaken by *ARL* with *Controlled / Connected Entities* are as under:

<u>Table no. 2</u>

FY	Purchases by *ARL* from connected entities (in INR Crore)	Total Purchases (As reported in P&L Account of *ARL*) (in INR Crore)	%
2011-12	220.75	354.69	62
2012-13	202.96	494.75	41
2013-14	297.72	705.98	42
2014-15	113.50	712.59	16
FY	Sales by *ARL* to connected entities (in INR Crore)	Gross Sales (As reported in P&L Account of *ARL*) (in INR Crore)	%
2011-12	215.73	456.02	48
2012-13	201.38	704.46	29
2013-14	297.67	967.00	31
2014-15	113.36	785.38	14

13. I note that in case of several of the above mentioned *Controlled / Connected Entities*, reversal transactions were also observed between the *Controlled / Connected Entities* and *ARL* i.e. a *Controlled / Connected Entity* received a credit from *ARL* and on that same day, such entity transferred back almost the same amount to *ARL*. Details of few of such transactions are tabulated below:

<u>Table no. 3</u>

I – NAME OF THE CONTROLLED / CONNECTED ENTITY: ELIXIR LIFE SCIENCE PRIVATE LIMITED. ACCOUNT NO.669011000304 BANK NAME–KOTAK MAHINDRA BANK LIMITED					
DATE	CREDIT AMOUNT	RECEIVED FROM	DATE	DEBIT AMOUNT	PAID TO
25-11-2011	80,14,300	*ARL*	25-11-2011	79,05,150	*ARL*
28-11-2011	70,14,500	*ARL*	28-11-2011	70,59,150	*ARL*

01-12-2011	36,40,300	*ARL*	01-12-2011	36,50,100	*ARL*
15-12-2011	75,66,200	*ARL*	15-12-2011	75,50,060	*ARL*
19-12-2011	75,65,100	*ARL*	19-12-2011	75,70,600	*ARL*
II – NAME OF THE *CONTROLLED / CONNECTED ENTITY*: MASCOT MACHINES PRIVATE LIMITED. ACCOUNT NO. 669011000312 BANK NAME– KOTAK MAHINDRA BANK LIMITED					
DATE	CREDIT AMOUNT	RECEIVED FROM	DATE	DEBIT AMOUNT	PAID TO
25-11-2011	70,45,500	*ARL*	25-11-2011	69,25,850	*ARL*
28-11-2011	68,48,300	*ARL*	28-11-2011	68,96,250	*ARL*
29-11-2011	45,12,300	*ARL*	29-11-2011	45,05,150	*ARL*
01-12-2011	49,49,500	*ARL*	01-12-2011	4,950,600	*ARL*
15-12-2011	54,65,800	*ARL*	15-12-2011	54,50,950	*ARL*
21-12-2011	68,54,557	*ARL*	21-12-2011	68,65,850	*ARL*
III – NAME OF THE *CONTROLLED / CONNECTED ENTITY*: MATRIX DEVICE AND MECHANISM PVT. LTD ACCOUNT NO. 6311134717 BANK NAME–KOTAK MAHINDRA BANK LIMITED					
28-11-2011	65,57,500	*ARL*	28-11-2011	64,25,100	*ARL*
01-12-2011	42,12,700	*ARL*	01-12-2011	42,10,650	*ARL*
15-12-2011	64,78,600	*ARL*	15-12-2011	64,75,100	*ARL*
19-12-2011	82,45,600	*ARL*	19-12-2011	82,50,100	*ARL*

14. As stated above, the SCN has alleged that there were transactions which were not genuine and such transactions were entered into with an objective to inflate the books of the *ARL* through such camouflaged entries. In this respect, the *Company* i.e. *ARL* has entered into transactions of sale and purchase with certain entities with which it had in reality no business transactions and the entries were made only to inflate the books of the *Company* as the transactions were further observed to have been reversed either on the same day or within a very short span of time. I note from the aforementioned table that on various occasions reversal transactions were undertaken between *ARL* and the *Controlled / Connected Entities*. I further note from the *Forensic Audit Report* that on various instances, circular transactions were observed between *ARL* and its *Controlled / Connected Entities*, wherein funds received from *ARL* by a *Controlled/ Connected Entity* (A) was transferred to another *Controlled / Connected Entity* (B) on the same day; thereafter, *Controlled / Connected Entity* (B) transferred the funds back to *ARL* on that same day. I also note that though such circular transactions were being shown as purchase and sale transactions in the books of accounts of *ARL*, however, in effect no real sale or purchase transactions were undertaken by *ARL* with the *Controlled / Connected Entities*, i.e. there were no actual movements of goods.

15. It is also noted from the perusal of the books of accounts and bank statements of majority of these *Controlled / Connected Entities* that they were not having any business transactions other than with *ARL* and *inter se* amongst the *Controlled / Connected Entities* themselves. On further examining the transactions with *ARL* in the backdrop of the afore noted alleged smokescreen of various transactions that were entered into for inflating books through artificial and bogus entries, I am further constrained to observe that these accounts of various *Controlled / Connected Entities* were opened only for the purpose of entering such fictitious transactions with *ARL* as these *Controlled / Connected Entities* were found to be carrying no business other than the transactions with *ARL*. I also observe from the balance sheets of the *Controlled / Connected Entities* that while their revenues were significant (ranging from around ₹7 Crores to ₹178 Crores), their profits were recorded at negligible amounts (ranging from around ₹1–58 Lakhs against such high revenues). Details of such observations are tabulated below:

Table no. 4

BALANCE SHEETS OF *CONTROLLED / CONNECTED ENTITIES* (AMOUNT IN CRORES)						
ENTITY	PARTICULARS	2010–11	2011–12	2012–13	2013–14	2014-15
ZURICH BIOTECH	REVENUE	21	71	64	82.82	-

	PROFIT	0.01	0.05	0.04	0.05	-
VENUS INTERNATIONAL	REVENUE	12	81	62	-	-
	PROFIT	0.58	0.04	0.03	-	-
PREVENTIVE PHARMACEUTICALS	REVENUE	102	109	111	-	-
	PROFIT	0.04	0.07	0.08	-	-
MAXIMUS WELLNESS	REVENUE	-	4	-	-	-
	PROFIT	-	0	-	-	-
HOLY REMEDIES	REVENUE	101	123	116	-	-
	PROFIT	0.06	0.09	0.09	-	-
COSMIC REMEDIES	REVENUE	7	62	76	116.92	-
	PROFIT	0	0.03	0.05	0.05	-
AVATHAR PHARMACEUTICALS	REVENUE	9	81	67	116	178
	PROFIT	0	0.06	0.06	0.09	0
AROMA REMEDIES	REVENUE	99	111	111	175	
	PROFIT	0.07	0.09	0.09	0.1	

16. I note that the SCN has alleged that *ARL* and its board of directors including the *Noticee* have knowingly entered into such fictitious and bogus transaction so as to manipulate the books of accounts of *ARL* and as a result, such manipulated books recording inflated sales and purchases were disclosed to the public at large. It has also been found in the Investigation that no such sales and purchases were ever entered into or executed by the *ARL* in reality, consequently, the *Company* through these artificial and false transactions has devised nothing but a scheme of inflating the books of the *Company* whereby it successfully concealed the true and correct financial health of the *Company* from the public and its shareholders.

17. In this regard, it may be relevant to note that to boost and provide impetus to the growth of the economy of the country, the regulation of listed companies under the securities law has undergone a sea change from the erstwhile control based regime to the disclosure based regime in terms of which, the listed entities are permitted to continue their business without any legal interference, provided they make maximum disclosure about their business affairs, shareholding patterns and governance matters etc., as mandated under various provisions of *SEBI Act, 1992* and Rules and Regulations made under *SEBI Act, 1992,* to the stakeholders, so as to allow them to take an informed decision at the time of dealing with the company for investment or otherwise. Under this disclosure framework, issuers and intermediaries are not only expected but are also required to disclose all the relevant details about themselves, the products, the market and all material information pertaining to their functioning so that the investors are able to take an informed investment decision based on such disclosures. Full, fair and timely disclosures form the cornerstone of any disclosure requirement stipulated by SEBI. The guiding principle in a disclosure based regulatory regime is the need for the issuers of securities to disseminate true and complete information to the potential investors in respect of the issuer and the securities being issued by it, to enable the potential investors to make their own informed investment decisions. The primary objective behind such regulatory requirement is to bring transparency in the securities market. The access to the securities market for the issuers is conditional subject to compliance with such requirements of disclosures.

18. The disclosure based regime imposes an onerous burden on the issuers of securities with respect to maintaining at all times the accuracy and completeness of the information disclosed by them. Thus, when the system is substantially tending to be regulated by disclosures, it is essential that those who are at the helm of the affaires of a listed company not only make true and fair disclosure but also put their self-interest aside to serve the interest of its existing and future shareholders and act largely towards safeguarding the interest of the investors. Any deviation from the above avowed obligation of making free and fair disclosures shall be viewed seriously under the extant securities law more so when, it comes to light that the people occupying pivotal positions in the listed entity knowingly engaged in activities of manipulating the facts and figures, entering into fictitious transactions with bogus controlled entities to manipulate books of accounts and further consciously indulge in disclosing distorted facts, manipulated accounts and inflated financials to the Exchanges for the consumption of the public at large.

19. As stated above that the information about the affaires of a company for a financial year is made available to the public/investors in the form its Annual Report including books of accounts, Balance Sheet, etc. The Annual Report is an exhaustive company specific report which informs the investors about company's performance in the preceding financial year as well as indicates about the future prospect of the company. The public/investors make their decision to invest in the company initially at the time of fresh issuance of public issue based on the prospectus of the company and their subsequent decision to stay invested in the company *inter alia,* depends on the information published in the Annual Reports of the company as well as the quarterly results published by the company which eventually form part of the Annual Report. The public disclosure of information related to the company in the prospectus and in its Annual Reports is not a mere ritual or formality, as the importance of presenting to the public the true and fair books of accounts and the Balance Sheet as part of the Annual Report or even in the form of quarterly or half-yearly financial results for enabling an investor to take an informed investment decision about the company, cannot be undermined. In the instant matter, I find that the *Company* and its board of directors have not only failed to disclose its true state of affairs but also have engaged in acts of inflating the balance sheet by artificial, false and fake purchases, sales thereby seriously depriving the investors and public from the knowledge of the true affairs and the actual financial position of the *Company*. The facts of the case in fact clearly point towards large-scale irregularities in the business transactions of the *Company* and deliberate manipulations in its books of accounts amounting to commission of fraud on the shareholders of the *Company* as well as on the public at large.

20. I have already held in the *Final Order* that a scheme was mainly devised by the MD and CEO of *ARL*, and with the power & authority that he had in his command, he got the books of accounts / financials of the *Company* manipulated by showing fictitious sales / profit and with the help of other *Directors of ARL (including the Noticee)* and also managed to disclose a very healthy but misleading picture about the financial affairs of the *Company* to the investors of *ARL* and other market participants at large by filing such manipulated and inflated financial statements to the stock exchanges. I have also dealt in detail in the *Final Order* about how the scheme was conceived as well as craftily implemented in the *Company*, whereby the scheme first started with the *Company* disclosing its wrong and fudged books of account / financials through its board of directors, followed by off-loading of the promoters shareholding by promoters through the promoters' connected entities and other entities, coupled with off-loading of shares by promoters at higher prices during FY 2014-15 and misleading disclosures about the promoters' shareholding to keep the investors and other shareholders in dark about the financials and actual promoters' stake in the *Company.* Therefore, for the sake of brevity, I am not repeating the same in this Order.

21. I note that the *Noticee* has submitted that he was associated with M/s Coronet Labs Pvt. Ltd. as a non-financial promoter and director and after M/s Coronet Labs Pvt. Ltd was acquired by *ARL* on 17.08.2011, he was appointed as Executive Director Technical / Operations in *ARL* with effect from 18.04.2012. He has further submitted that he was never involved in finance procurement, banking activities, auditing, declaration of accounts, financial compliances, issue of shares or trading of shares of *ARL* and was only taking active participation in the Operations of the *Company.* In this regard, it is important to highlight that the *Noticee* has been attributed to be liable for the deeds of the *Company* by virtue of his directorship with the *Company*, which is not a disputed fact nor any other specific plea has been taken by the *Noticee* so as to escape the liability of the violation committed by the *Company*. There can be no two opinions that all the acts which are executed in the name of an incorporated entity, are in reality executed by the natural persons who by their own minds and wisdom, are controlling the said artificial juristic person (company) in their capacity of its Directors. A company, being an artificial entity, cannot function on its own and will walk only in such direction, which may be desired by the Directors who are controlling the and supervising the management in the overall functioning of the company. It is also important to mention here that the *Noticee* was associated with the *Company* as an Executive Director and not as an Independent Director in the *Company*. I further note that the position of a 'Director' in a company comes along with responsibilities and compliances under law associated with such position, which have to be fulfilled by such Director and in case of default, he has to face the consequences thereof. I would like to point out that the Directors of a company are expected to diligently perform their duties with skill and care in administering the affairs of the company and not to officiate as figure-heads. The duty of displaying due care, skill and diligence requires the Directors to devote the requisite time and attention to the affairs of the company and to take decisions that do not expose the company to unnecessary risks. A Director who is part of a company's Board shall be responsible and liable for all acts carried out by the company after following Board processes and after bringing it to the attention of the Board of which he is a member. Therefore, the *Noticee* who was an Executive Director in *ARL* cannot wriggle out from his liability from such actions of the *Company* that transgresses the law directly or indirectly in any manner.

22. In this regard, on the issue of the consequences of the not making fair and true disclosure or concealing material information from the shareholders or utilizing resources of the listed company for purposes other than the objects as shared and disclosed to the stakeholders, the Hon'ble Securities Appellate Tribunal in the matter of *V. Natarajan* vs. *SEBI*, Appeal No. 104 of 2011, has held as follows:

> "*... 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 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…"

23. As stated above, the that allegations in this case are in the nature of publication of false results for various years as discussed earlier, so as to have an impact of artificially inflating the stock of *ARL* which clearly establish that *ARL* over the period commencing from FY 2010-11, has constantly engaged in false and fictitious sales and purchases, which were found to be non-genuine and consequently, the figures or the financials as shown declared in the books of accounts of *ARL* for the Financial Years 2011 to 2015 were deliberately manipulated. It is noted that the prime submission of the answering *Noticee* that he was a director in a company that was acquired by *ARL* and he became a director because one of the conditions of *ARL* was that it wanted employees of the acquired entity to remain associated with *ARL* for better and smooth take over. In response to the above, it is observed that the acquisition of M/s Coronet Labs Pvt. Ltd is a matter of record and nothing is disputed to that extent. However, one cannot ignore the serious allegations under the instant proceedings levelled against *ARL* pertaining to falsification of its books and accounts continuously over a period of 5 years i.e. for the Financial Years 2011 to 2015. It is also observed that the *Noticee* has not advanced any submission disputing the findings of the investigation, except to submit that he had no role to play in the day to day management of the *Company*. It is further observed that the finances of the *Company* were manipulated consistently over the period during which the Noticee was an Executive Director in the *Company* and for which no justifiable response has been submitted by the *Noticee*. I can't close my eyes to the fact that the *Noticee* was an Executive Director of the *Company* and being so, he was under statutory responsibility to act diligently. As per his own submission, he was associated with the acquired entity and after acquisition became a director of a listed entity (*ARL*). He must be cognizant of the fact that after acquisition, he voluntarily took the post of an Executive Director of a listed company, consequently, his role and responsibility has acquired immense accountability towards the public shareholders of *ARL* as well as to the general investors of the market. If he had carried out his duty diligently and with due care, he would have certainly noticed the circular transactions arising out of sales and purchases made frequently by *ARL* with its connected entities. I also can't ignore the fact and submission of the *Noticee* that he was also having the same industry background / expertise and was not new or novice to the segment in which *ARL* operated so as to accept his ignorance or lack of experience as a ground to grant him any benefit of doubt. The frequency with which the transactions were carried out by *ARL* with the connected entities, which had no previous background of dealing with *ARL* were to raise red flags in his mind to persuade him to make meaningful noises before the Board of *ARL* and to make necessary inquiries with the management with respect to falsification of transactions. However, on the contrary, from the facts and circumstances surrounding his conduct, it emerges that the *Noticee* maintained cryptic silence and remained blissfully unaware of all the wrong doings of *ARL* over a long period of 3 years, thereby allowed /facilitated, albeit passively, the execution of those false and bogus transactions by *ARL* and failed in performing his duties as an Executing Director.

24. In view of the above, in my opinion, by virtue of not making any attempt to force *ARL* to make true and correct disclosure of books of accounts including the Balance Sheet in a transparent and fair manner, the *Noticee,* who was on the board of directors of *ARL*, has deprived the investors from making an informed investment decision about the *Company*. Therefore, as an Executive Director of the *Company*, by not complying with the regulatory obligation of making true and correct disclosures, the *Noticee,* who was on the board of directors of *ARL*, has misled the investors to the detriment of their interest which led to commission of violation of Sections 12A (a), (b) and (c) of SEBI Act read with regulations 3 (b), (c), (d), 4(1), 4(2) (f), (k) and (r) of *PFUTP Regulations, 2003* on his part. It is important to reiterate here that the directions qua board of directors (other than the *Noticee)* of *ARL* have already been passed by SEBI in the *Final Order*.

25. Having made the observation qua the role of the *Noticee*, it is also noticed that the instant proceedings also call upon for imposing of monetary penalty in terms of relevant provisions of laws for the violation alleged in the SCN. Extracts of these penalty provisions are extracted below for ready reference:

Section 15HA of SEBI Act, 1992:

"Penalty for fraudulent and unfair trade practices.

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

Section 15J of the SEBI Act, 1992:

"Factors to be taken into account while adjudging quantum of penalty.

15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: –

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

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

(c) the repetitive nature of the default.

Explanation. – For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section

15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section."

26. Upon a consideration of the above penalty provisions and looking at the manner in which the Noticee has conducted himself as an Executive Director of ARL over a period of three years, I find the *Noticee* has allowed himself through his inaction and misconduct, to become part of the scheme devised by MD and CEO of *ARL* to manipulate the books of accounts / financials and mislead other market participants by filing such manipulated and inflated financial statements of *ARL* to the stock exchanges, which further allowed the promoters of ARL and promoter connected entities to off-load their shares of *ARL* through stock exchange platform. Such acts of turning a blind eye of the *Noticee* have led to avoidance of losses to the tune of INR 164 crores (approximate) by the promoters of ARL and promoter connected entities, which has been alleged in SCN and dealt in detail in the *Final Order*. Therefore, the Noticee by indirectly joining hands with the promoters in executing the fraudulent accounting conspiracy to misled the investors and to dole out benefits to the promoters, can be stated to have violated the provisions of *PFUTP Regulations, 2003 and* consequently has become liable for levy of penalty under Section 15 HA of the *SEBI Act, 1992*. I also cannot lose sight of the fact that the aforesaid scheme of manipulating / inflating sales of the *Company* by the board of directors (including the *Noticee* by way of his misconduct as discussed above) of the *Company* was carried out for a period of five to six years (Investigation Period) out of which Noticee was Director of the *Company* for a period of almost 3 years (2012-2014), thereby operating against the interest of the investors of the securities market apart from acting against the market equilibrium. In light of the aforesaid acts of the *Noticee*, I have considered the factors enumerated under Section 15J of the *SEBI Act, 1992* while considering the monetary penalty to be imposed on the *Noticee*, which is stated in the subsequent paragraphs of this Order.

Order

27. In view of the aforesaid discussions and findings by me with respect to the violations of various provisions of *SEBI Act, 1992* and regulations thereunder by the *Noticee* as found established, I in exercise of powers conferred upon me under Sections 11(1),11(4),11B (1), 11B (2) read with Section 19 of the *SEBI Act, 1992*, in order to protect the interest of investors and the integrity of the Securities Market and to meet the ends of justice, hereby issue the following directions:

a) The *Noticee* is hereby restrained from accessing the securities market, and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, and associating with the securities market in any manner for a period of six months from the date of this Order.

b) It is clarified that during the period of restraint the existing holding of securities of the *Noticee*, including the units of mutual funds, shall remain under freeze.

c) It is clarified that obligation of the *Noticee*, in respect of settlement of securities, if any, purchased or sold in the cash segment of the recognized stock exchange(s), as existing on the date of this Order, can take place irrespective of the restraint/prohibition imposed by this Order, in respect of pending transactions, if any. Further, all open positions, if any, of the *Noticee* in the F&O segment of the stock exchange, are permitted to be squared off, irrespective of the restraint/prohibition imposed by this Order

d) In light of my above observation and considering the factors mentioned under Section 15J of the *SEBI Act, 1992*, *Noticee* is hereby imposed with a monetary penalty of INR 5 lakhs under Section 15 HA of the *SEBI Act, 1992*. The *Noticee* shall remit/pay the aforementioned amount of penalty within 45 days from the date of receipt of this order. The *Noticee* shall remit / pay the said amount of penalty either by way of online payment through following path on the SEBI website: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairman/ Members → Click on PAY NOW or at the link https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html. In case of any difficulties in online payment of penalty, the *Noticee* may contact the support at portalhelp@sebi.gov.in. The confirmation of e-payment should be sent to "The Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai -400 051" and also to e-mail id:- tad@sebi.gov.in in the format as given in table below:

Case Name	
Name of Payee	
Date of Payment	
Amount Paid	
Transaction No.	
Payment is made for : (like penalties /disgorgement /recovery/settlement amount/legal charges along with order details)	

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

29. A copy of this Order shall be forwarded to the *Noticee*, all the recognized Stock Exchanges, depositories, registrar and transfer agents and banks for ensuring compliance with the above directions.

Sd/-

DATE: APRIL 28, 2023 **S. K. MOHANTY**

PLACE: MUMBAI **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA