

National Stock Exchange of India

Circular

Department: Investigation	
Download Ref No: NSE/INVG/56899	Date: May 31, 2023
Circular Ref. No: 135/2023	

To All NSE Members

Sub: SEBI Order in the matter of Magnum Ventures Limited

SEBI vide its Order no. QJA/SP/CFID/CFID-SEC4/26875/2023-24 dated May 31, 2023, has hereby restrained below mentioned entities from accessing the securities market, directly or indirectly and is prohibited from buying, selling or otherwise dealing in the securities market, directly or indirectly in any manner whatsoever, for a period of 1(one) year from the date of this Order.

Sr. No.	Name of the Entity	PAN
1	Magnum Ventures Limited	AAACM6054H
2	Mr. Pardeep Kumar Jain	AAEPJ3120G
3	Mr. Abhay Jain	AAEPJ3124C
4	Mr. Parmod Kumar Jain	ADVPJ3524E
5	Mr. Shiv Pravesh Chaturvedi	AFNPC4837R
6	Ms. Neha Gupta	BQQPG0530C
7	Mr. Parveen Kumar Jain	AAEPJ1285C
8	Mr. Rakesh Garg	AAKPG3880A
9	Mr. Subash Oswal	AAEPO2210L
10	Mr. Parv Jain	AHLPJ 7813J

National Stock Exchange of India

SEBI vide above order has directed that obligations of above entities, 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, only in respect of pending unsettled transactions, if any. Further, all open positions, if any, of the Noticees in the F&O segment of the stock exchange, are permitted to be squared off, irrespective of the restraint/prohibition imposed by this Order.

This Order shall come into force with immediate effect.

The detailed order is available on SEBI website ([Securities and Exchange Board of India \(sebi.gov.in\)](http://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 email us at dl-invsg-all@nse.co.in

**For and on behalf of
National Stock Exchange of India Limited**

**Sandesh Sawant
Senior Manager**

ANNEXURE: - SEBI Order in the matter of Magnum Ventures Limited

QJA/SP/CFID/CFID-SEC4/26875/2023-24

**SECURITIES AND EXCHANGE BOARD OF INDIA
FINAL ORDER**

Under Sections 11(1), 11(4), 11(4A), 11B(1), 11B(2) read with 15HA and 15HB of the Securities and Exchange Board of India Act, 1992 and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995

In respect of -

Noticee No.	Name	PAN
1	Magnum Ventures Limited	AAACM6054H
2	Mr. Pardeep Kumar Jain	AAEPJ3120G
3	Mr. Abhay Jain	AAEPJ3124C
4	Mr. Parmod Kumar Jain	ADVPJ3524E
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10	Mr. Parv Jain	AHLPJ 7813J

In the matter of Magnum Ventures Limited

1. Securities and Exchange Board of India (hereinafter referred to as “**SEBI**”) examined the financial statements of Magnum Ventures Limited (hereinafter referred to as “**Magnum**” or the “**Company**”) for four financial years from 2016-17 to 2019-20 (hereinafter referred to as “**investigation Period**”) to ascertain whether they were prepared and disclosed in terms of applicable and notified accounting standards and as required under Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as “**LODR Regulations**”), and whether there was any violation of the provisions of SEBI Act, 1992 (hereinafter referred to as “**SEBI Act**”), the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (hereinafter referred to as “**PFUTP Regulations**”) and LODR Regulations.

SHOW CAUSE NOTICE, REPLIES AND PERSONAL HEARING:

2. On the basis of the findings of the investigation, a Show Cause Notice No. SEBI/HO/CFID/SEC-4/OW/P/2022/46846/11 dated September 02, 2022 (hereinafter referred to as “**SCN**”) was issued to the Company and 8 of its directors and its Chief Financial Officer (hereinafter together referred to as the “**Noticees**”), calling upon them to show cause why appropriate directions under Sections 11(4) and 11B (1) read with Section 11(1) of the SEBI Act should not be issued for the violations of the provisions of the SEBI Act, LODR Regulations and PFUTP Regulations alleged to have been committed by them. Further, the Noticees were also called upon to show cause 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 (hereinafter referred to as “**Adjudication Rules**”) and penalty be not imposed on them under Sections 11 (4A) and 11 B (2) read with Sections 15HA and 15HB of the SEBI Act for the alleged violations of provisions of SEBI Act, LODR Regulations and PFUTP Regulations.
3. The SCN was served by speed post upon Noticees No. 1 and 6 on September 13, 2022 and remaining Noticees on September 12, 2022. Noticee No. 1 on behalf of all the Noticees, vide letter dated October 01, 2022, requested for extension of 21 days to file their reply.
4. Noticee No. 1 filed a reply dated October 15, 2022, and Noticees No. 2 to 10, in addition to their respective replies dated October 20, 2022 further submitted to adopt the reply dated October 15, 2022 filed by Noticee No. 1. In addition to the reply dated October 15, 2022, Noticee No.1 filed additional submissions vide reply dated December 01, 2022.
5. Subsequently, an opportunity of personal hearing was granted to the Noticees on December 16, 2022. The Authorised Representative of the Noticees appeared and reiterated the contents of the written replies filed by the Noticees and sought a week’s time to file additional written submissions. Noticees filed post- hearing written submissions vide a common reply dated December 28, 2022.

LEGAL PROVISIONS:

6. Before dealing with the issues involved and the replies of the Noticees, it would be appropriate to refer to the provisions of law which are alleged to have been violated by the Noticees and the relevant extracts thereof are reproduced hereunder:

Provisions of SEBI Act:

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

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

Section 27(2). *Notwithstanding anything contained in sub-section (1), where an contravention under this Act has been committed by a company and it is proved that the contravention has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.*

Explanation: For the purposes of this section, —

- (a) “company” means anybody- corporate and includes a firm or other association of individuals; and*
- (b) “director”, in relation to a firm, means a partner in the firm.*

Provisions of the PFUTP Regulations:

Regulation 3. Prohibition of certain dealings in securities

No person shall directly or indirectly –

- (a) ...*

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

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

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

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

- (2) Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely: —*
- (e) any act or omission amounting to manipulation of the price of a security including, influencing or manipulating the reference price or bench mark price of any securities;*
 - (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) knowingly planting false or misleading news which may induce sale or purchase of securities.*

Provisions of the LODR Regulations:

Principles governing disclosures and obligations

Regulation 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.*
- (e) The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made thereunder, are adequate, accurate, explicit, timely and presented in a simple language.*
- (f) Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by 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.*

Regulation 4(2): The listed entity which has listed its specified securities shall comply with the corporate governance provisions as specified in chapter IV which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below.

- (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.
- (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 –
 - (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.

Compliance Officer and his/ her Obligations

Regulation 6(2). The compliance officer of the listed entity shall be responsible for-

- (a) ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.
- (b) co-ordination with and reporting to the Board, recognised stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in manner as specified from time to time.
- (c) ensuring that the correct procedures have been followed that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity under these regulations.
- (d) monitoring email address of grievance redressal division as designated by the listed entity for the purpose of registering complaints by investors:

Provided that the requirements of this regulation shall not be applicable in the case of units issued by mutual funds which are listed on recognised stock exchange(s) but shall be governed by the provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

Board of Directors

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

Audit Committee

Regulation 18(3). The role of the audit committee and the information to be reviewed by the audit committee shall be as specified in Part C of Schedule II.

Part C of Schedule II: ROLE OF THE AUDIT COMMITTEE AND REVIEW OF INFORMATION BY AUDIT COMMITTEE

A. The role of the audit committee shall include the following:

- (1) oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- (4) reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - (a) matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
 - (b) changes, if any, in accounting policies and practices and reasons for the same;
 - (c) major accounting entries involving estimates based on the exercise of judgment by management;
 - (d) significant adjustments made in the financial statements arising out of audit findings;
 - (e) compliance with listing and other legal requirements relating to financial statements;
 - (f) disclosure of any related party transactions;
 - (g) modified opinion(s) in the draft audit report;
- (5) reviewing, with the management, the quarterly financial statements before submission to the board for approval

Financial Results

Regulation 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.
- (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.*

Regulation 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.

Regulation 33(3). The listed entity shall submit the financial results in the following manner:

- (c) The quarterly and year-to-date financial results may be either audited or unaudited subject to the following:*

- (i) In case the listed entity opts to submit unaudited financial results, they shall be subject to limited review by the statutory auditors of the listed entity and shall be accompanied by the limited review report.*

Provided that in case of public sector undertakings this limited review may be undertaken by any practicing Chartered Accountant.

- (ii) In case the listed entity opts to submit audited financial results, they shall be accompanied by the audit report.*

- (d) The listed entity shall submit annual audited standalone financial results for the financial year, within sixty days from the end of the financial year along with the audit report and Statement on Impact of Audit Qualifications (applicable only for audit report with modified opinion):*

Provided that if the listed entity has subsidiaries, it shall, while submitting annual audited standalone financial results also submit annual audited consolidated financial results along with the audit report and [Statement on Impact of Audit Qualifications (applicable only for audit report with modified opinion):

Provided further that, in case of audit reports with unmodified opinion(s), the listed entity shall furnish a declaration to that effect to the Stock Exchange(s) while publishing the annual audited financial results.

- (i) *The listed entity shall disclose, in the results for the last quarter in the financial year, by way of a note, the aggregate effect of material adjustments made in the results of that quarter which pertain to earlier periods.*

Annual Report

Regulation 34(2). The annual report shall contain the following:

- (a) *audited financial statements i.e. balance sheets, profit and loss accounts etc., and Statement on Impact of Audit Qualifications as stipulated in regulation 33(3)(d), if applicable;*

Regulation 34(3). The annual report shall contain any other disclosures specified in Companies Act, 2013 along with other requirements as specified in Schedule V of these regulations.

Schedule V Part B Para 2 of LODR.

Disclosure of Accounting Treatment:

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction.

Accounting Standards.

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

SEBI Circular No. CIR/CFD/FAC/62/2016 dated July 05, 2016:

2.1 The existing formats prescribed in SEBI Circular dated November 30, 2015 for Unaudited/ Audited quarterly financial results i.e. Statement of Profit and Loss and the Unaudited/Audited Half-Yearly Balance Sheet to be submitted by the listed entities, with the stock exchanges, shall continue till the period ending December 31, 2016. For the period ending on or after March 31, 2017, the formats for Unaudited/Audited quarterly financial results i.e. Statement of Profit and Loss and the Unaudited/Audited Half-Yearly Balance Sheet to be submitted by the Listed Entities, with the stock exchanges, shall be as per the formats for Balance Sheet and Statement of Profit and Loss (excluding notes and detailed sub-classification) as

prescribed in Schedule III to the Companies Act, 2013. However, Banking Companies and Insurance Companies shall follow the formats as prescribed under the respective Acts/Regulations as specified by their Regulators.

2.2. Until Companies (Indian Accounting Standards) Rules, 2015 ('In-AS Rules') become applicable, the listed entities shall adopt Companies (Accounting Standards) Rules, 2006 ('AS Rules') as prescribed by the Ministry of Corporate Affairs ('MCA').

Schedule – III of Companies Act 2013

Instructions on Long-term borrowings are contained in Schedule III, Division I, Part I – Balance Sheet

General Instructions for Preparation of Balance Sheet

6. A company shall disclose the following in the notes to accounts.

C. Long-Term Borrowings

(i) Long-term borrowings shall be classified as:

(a) Bonds/debentures;

(b) Term loans:

(A) from banks.

(B) from other parties.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed

(vi) Terms of repayment of term loans and other loans shall be stated.

(vii) Period and amount of continuing default as on the Balance Sheet date in repayment of loans and interest, shall be specified separately in each case.

IND-AS Rules and AS Rules:

(i) Relevant provisions of AS 1 – Disclosure of Accounting Policies:

Para 10 – The following have been generally accepted as fundamental accounting assumptions: -

b. Consistency – It is assumed that accounting policies are consistent from one period to another.

c. Accrual - Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate.

Para 17 – The major considerations governing the selection and application of accounting policies include: -

a. Prudence – In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot

be determined with certainty and represent only a best estimate in the light of available information.

- (ii) Relevant Extract of para 6 of AS 4 – Contingencies and Events occurring after the Balance Sheet Date:

“Accounting Treatment of Contingent Gains - Contingent gains are not recognised in financial statements since their recognition may result in the recognition of revenue which may never be realised. However, when the realisation of a gain is virtually certain, then such gain is not a contingency and accounting for the gain is appropriate.”

- (iii) Relevant provisions of AS 5 – Net profit or loss for the period, Prior period items and Change in Accounting Policies:

Para 12, 13 and 14 - When items of income and expense (although they are not extraordinary items) within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Circumstances which may give rise to the separate disclosure of items include “other reversals of provisions”.

- (iv) Relevant extracts of para 6 of AS 16 – Borrowing Costs:

“Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.”

- (v) Relevant extracts of para 6 of AS 20 – Earnings Per Share:

“.....A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise or to”

- (vi) IND AS 1 – Presentation of Financial Statements includes the requirements similar to the aforesaid provisions of AS 1 and AS 5.

- (vii) Relevant extract of clause 8 of IND AS 23 – Borrowing Costs:

“an entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognize other borrowing costs as an expense in the period in which it incurs them.”

- (viii) Relevant extract of definition of ‘Financial Liability’, as defined under clause 11 of ‘IND AS 32 - Financial Instruments: Presentation’, is reproduced as under:

“A financial liability is any liability that is:

(a) a contractual obligation:

(i) to deliver cash or another financial asset to another entity; or (ii).....”

- (ix) Relevant extract of clause 35 of ‘IND AS 32 – Financial Instruments: Presentation’:

“Interest, dividends, losses and gains relating to a financial instrument or a component that is a financial liability shall be recognised as income or expense in profit or loss.”

(x) Relevant extract of clause 3.3.1 of 'IND AS 109 - Financial Instruments:

“an entity shall remove a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires”.

ALLEGATIONS AGAINST THE NOTICEES AND THEIR SUBMISSIONS:

7. I have considered the allegations made in the SCN, Noticees' replies, and the submissions made by the Noticees during the personal hearing. I now proceed to determine the issues raised and consider the matter on merits, based on the material on record.
8. The specific allegations made in the SCN against each of the Noticees, submissions made by the Noticees *qua* the allegations made against them and my findings thereon are dealt in the following parts of the order:

Part A – Accounting treatment of debt and interest was not in accordance with the Generally Accepted Accounting Principles (hereinafter referred to as “GAAP”) and the applicable and notified Accounting Standards, and the Company had fraudulently manipulated its financial position on account of:

- (i) Reversal of accumulated Interest Accrued of ₹ 111.56 crore in FY 2016-17
- (ii) Non-recognition of interest expense incurred on bank loans since FY 2016-17
- (iii) Understatement of liability to Alchemist Asset Reconstruction Company Limited (AARC) since FY 2017-18, as compared to the terms of Restructuring Plan

Part B – Provisioning for doubtful debts and complete reversal of the same in succeeding year and inflated financial result of Magnum for FY 2016-17.

Part C – Concealment of audit qualifications at the time of disclosure of audited financial results for the quarter and year ended March 31, 2017 to BSE/NSE, causing significant fluctuations in share price of the Company.

Part D – Published Limited Review or Audit Reports issued by auditor who doesn't hold valid Peer Review Certificate during the period FY 2016-17 to FY 2019-20.

Part E – Non-disclosure/ incorrect disclosure of information in Annual Reports for the financial years 2016-17 to 2019-20.

Part F – Violations of the PFUTP Regulations.

Part A

Accounting treatment of debt and interest was not in accordance with the GAAP and the applicable and notified Accounting Standards and the Company had fraudulently manipulated its financial position

9. It is alleged in the SCN that the accounting treatment of interest expense and liabilities was not on the basis of fundamental accounting assumptions of 'Accrual', 'Consistency' and principle of Prudence and not in accordance with the GAAP and the applicable and notified Accounting Standards viz. AS 1, AS 4, AS 5, AS 16, IND AS 1, IND AS 23, IND AS 32 and IND AS 109. It is further alleged that the Company had failed to adopt consistent and prudent accounting policies/practices for all the periods with respect to interest expenses, contractual liabilities and provisioning for doubtful debts. In order to substantiate the aforesaid allegations, the SCN has brought out that Magnum:
- A. Reversed Accumulated Interest Accrued of ₹ 111.56 crore in FY 2016-17.
 - B. Failed to recognise the interest expense incurred on bank loans since the FY 2016-17.
 - C. Understated the liability to AARC since FY 2017-18, as compared to the terms of Restructuring Plan.

Reversed Accumulated Interest Accrued of ₹ 111.56 crore in FY 2016-17:

10. The allegations in respect of reversal of Accumulated Interest Accrued of ₹ 111.56 crore in FY 2016-17 by Magnum which was not in accordance with the accounting standards, as alleged in the SCN, are as under:

- a. *In FY 2016-17, Magnum had reversed the entire Accumulated Interest Accrued which were due to six banks amounting to ₹ 111.56 crore and shown as income in the Profit & Loss Account for the year.*
- b. *As explained by Magnum vide various letters resting with letter dated 24.11.2021 to SEBI, the aforesaid reversal of interest accrued was done by virtue of One Time Settlement (hereinafter referred to as "OTS") proposals under consideration of banks or OTS sanction disputed before Hon'ble Delhi High Court or Restructuring Plans in progress after assignment of 64% of debts by banks to AARC. Correspondences among the company, banks and AARC in this regard were submitted by the company. However, the company had not received any written communication from AARC/banks regarding fixation or extinguishing of financial liability of the company or waiver of interest due on these loans.*
- c. *With respect to ('w.r.t.') the outstanding dues, it was observed that all these banks had classified the accounts of Magnum as Sub-standard/Non-performing Asset (hereinafter referred to as "NPA") by FY 2013-14. As per Notes to Accounts for FY 2016-17, due to 2nd rework package approved by Corporate Debt Restructuring (hereinafter referred to as "CDR") in 2013-14 and as per RBI circular on repeated re-structuring, all banks classified the company's account as NPA and company had made a provision for Notional/Uncharged interest.*
- d. *In this regard, it was noted that the **company had been accounting interest expense (including the interest for the current year and for the prior period) and the accumulated interest accrued liability until FY 2015-16, precisely, until publishing of unaudited results for the quarter ended December 31, 2016.** However, Magnum had reversed the entire accumulated interest accrued and stopped recognition of interest expense while preparation and publishing of audited financial results for the quarter and year ended March 31, 2017 without occurrence of any event that extinguished the financial liability. Thus, it appears that the noticees pre-planned to manipulate and inflate the financial results for the quarter and year ended March 31, 2017. This change in accounting policy/treatment by Magnum in FY 2016-17 was on the ground that interest income on NPAs are not recognized by banks and the fact that the settlement/restructuring process is ongoing. However, the settlement or restructuring was not finalised and the liability was not extinguished. Hence, this was not in accordance with the Accounting Standards 1, 4 and 16 as regards to the fundamental assumptions of accrual & consistency, consideration of prudence and recognition of borrowing costs. Further, the nature and amount of said reversal of accrued interest ₹ 111.56 crore was not disclosed separately while recognizing the same as income in the audited financial results and hence the same was not in accordance with AS 5. Hence, the reported audited financial results did not reflect/explain the actual performance of the company for the period.*
- e. *The aforesaid misstatement is discussed below in two categories as Restructured Loans and Non-Restructured Loans:*

- i) Restructured Loans - The Restructuring Plan with AARC w.r.t. the outstanding dues to five banks at Sl. No. 1 – 5 of Table-1 at pre-page 7 (hereinafter referred to as “Restructured Loans”) were entered and signed on a later date on March 31, 2018, i.e., at the end of FY 2017-18 only. As on March 31, 2017, while the loan amounts are rightly shown against the respective banks and not against AARC, the Accumulated Interest Accrued totalling to ₹ 99.91 crore was reversed in FY 2016-17 itself. i.e., the Interest Accrued w.r.t. these loans were reversed even before the restructuring agreement was approved/signed. Further, it is also noteworthy that the total liability to AARC as per the Restructuring Plan was ₹ 304 crores as against the total Principal outstanding to these five banks of ₹ 265.67 crore, which indicates the existence of interest liability even as per the Restructuring Plan. Thus, by reversing interest accrued much earlier than the actual signing of the Restructuring Plans, Magnum had misstated the amounts using the “time difference” while recognizing the same as income a year earlier for FY 2016-17 and removing the pre-existing interest accrued liability from its books. This had resulted in an overstatement of net profit for FY 2016-17 by ₹ 99.91 crore and understatement of liability as on March 31, 2017 by ₹ 99.91 crore.
- ii) Non-restructured Loans – W.r.t. the outstanding dues to Vijaya Bank as at Sl. No. 6 in Table-1 at pre-page 7 (hereinafter referred to as “Non-restructured Loans”), the debt was never assigned to AARC and was not a part of such Restructuring Plan. In this regard, it is noted that a suit filed by the company against the bank is pending before Hon’ble Delhi High Court wherein the company has challenged the OTS sanction letter dated November 30, 2016 from Vijaya Bank inter alia demanding OTS settlement along with interest @ BR+1% or Document Rate, whichever is less. Subsequently, the OTS proposal by the company dated August 27, 2018 for ₹ 20.50 crore was not accepted by the bank. Instead, the bank has demanded the company to increase its OTS offer amount at least to ₹ 30.80 crore vide its letter dated November 15, 2018. These facts indicate that Vijaya Bank was not willing to waive off the accumulated interest accrued / ensuing interest completely. Thus, there was no occurrence of any event during the entire examination period that extinguished this financial liability of the company. Even though the outstanding principal amount to Vijaya Bank ₹ 23.80 crore has been rightly shown separately against Vijaya Bank under Long Term Borrowings in financial statements from FY2016-17 to FY2019-20, the Accumulated Interest accrued of ₹ 11.65 crore as on April 01, 2016 was reversed in FY2016-17, causing overstatement of net profit in FY2016-17 & understatement of liability henceforth by ₹ 11.65 crore.
- f. Thus, it is alleged that, net profit and net-worth of the company for FY 2016-17 were overstated to the extent of ₹ 111.56 crore and liability to banks was understated by ₹ 111.56 crore.
- g. With respect to reversal of interest accrued, the statutory auditor has submitted that the same was not in conformity with the GAAP and hence they had qualified the same in their Independent Auditor’s Report for FY 2016-17 (Annexure 6 to ER).

h. In view of the above, the financial liability of the company (i.e., interest accrued of ₹ 111.56 crore) cannot be considered to be extinguished since the banks/AARC had not waived off the same at the time of publishing of financial results for FY 2016-17. Hence, the company should not have reversed the same in that year and should have followed consistency and prudence while adopting the accounting treatment. In view of the foregoing, the accounting treatment of reversal of interest accrued in FY2016-17 was not in accordance with the applicable and notified accounting standards AS 1, AS 4, AS 5 and AS 16.

i. The rationale given by the noticees for non-recognition of interest and reversal of interest accrued in FY 2016-17 onwards were (i) bank's classification of loans as NPA, (ii) the existence of CDR / OTS / Assignment to AARC, (iii) best estimates of management, etc. However, the accounting treatment adopted by the company till FY 2015-16 contradicts with their own rationale in the following manner:

The banks classified the loans taken by company as NPAs in the year 2013 itself. Oriental Bank of Commerce (OBC) and Allahabad Bank (AB) had already assigned the debts to AARC in December 2015 itself (which was forwarded by AARC to company in January 2016). However, the company had:

- Accounted interest expense of ₹ 52.45 crore for the FY 2015-16 w.r.t. all banks even after the loans were classified as NPA by the banks in April 2013.
- Accounted even the prior period interest of ₹ 9.80 crore in FY 2015-16 based on the re-calculation after exit from CDR vide letter from CDR EG dated March 22, 2016.
- Retained the entire accumulated interest accrued including those w.r.t. OBC and AB in FY 2015-16, even after the debts of both banks were assigned to AARC.

Hence, there was no change in circumstances or occurrence of event or any other rationale for change in accounting treatment.

j. In view of the foregoing, the non-compliance with the accounting standards by sudden change in accounting policy/treatment in the last quarter of FY 2016-17 allegedly to manipulate and inflate the financial results materially can be seen as a part of pre-determined and fraudulent scheme/device in terms of Regulation 2(1)(c) of PFUTP Regulations. The relevant extract of Regulation 2(1)(c) of PFUTP Regulations defining fraud is;

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

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

(3) an active concealment of a fact by a person having knowledge or belief of the fact;

And "fraudulent" shall be construed accordingly;

k. Magnum had significantly manipulated the price of the scrip by materially manipulating the financial results through abrupt change of accounting policy/treatment of interest accrued in

the last quarter of financial year 2016-17 and followed by concealment of audit qualifications as explained at para 3.3. Thus, the noticees devised a fraudulent scheme by knowingly misrepresenting the truth and concealment of material fact (i.e., audit qualifications) and thereby disclosing the financial statements which does not provide true and fair view of the company's financial position.

- I. The violation by the company was committed with the consent or connivance of, or is attributable to the neglect on the part of the noticee no. 2 to 10. Thus, it is alleged that the Noticees had violated regulations 4(1), 4(2)(e), 33(1)(a) & (c), 34(3) and 48 of LODR Regulations and regulations 3(b), (c) & (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of PFUTP Regulations read with sections 12A (a), (b), (c) of the SEBI Act.*

Non-recognition of interest expense incurred on bank loans since FY 2016-17:

11. The allegations in respect of non-recognition of interest expense incurred on bank loans since FY 2016-17 by Magnum, as alleged in the SCN, are as under:

It is observed that the interest expenses due to banks/AARC was not recognized by the company from FY 2016-17 onwards. It is alleged that the same was not in accordance with AS 1, para 6 of AS 16, IND AS 1, clause 8 of IND AS 23, clause 11 of IND AS 32 and 3.3.1 of IND AS 109 as explained hereinafter:

- a. **For FY 2016-17**, the interest expense due for the year on outstanding loans to all the six banks was not accounted/provided for, which is amounting to ≈ ₹ 52.45 crore (as per the company's submission dated September 04, 2021–Annexure 4 to ER). Independent Auditor's Report for FY2016-17 contains Qualified Opinion w.r.t. non-booking of interest on loans for the year.*

In this regard, it is observed that the company has not received any written communication from AARC / banks regarding fixation of liability of the company or waiver of interest amount on these loans and the Restructuring Plan with AARC was not finalized at the time of publishing of results for FY 2016-17. Letters of banks/AARC in this connection are given at Annexure 4 to ER. Further, as explained at para 3.1(e)(ii), the facts indicate that Vijaya Bank was not willing to waive off the interest completely.

It is observed from the unaudited financial results for the quarter ended December 31, 2016, filed by the company with BSE on February 14, 2017 that the company had accounted ₹ 8.98 crore and ₹ 26.44 crore as Finance Cost for the quarter and nine months ended December 31, 2016 respectively (Annexure 8 to ER). However, the Finance Cost accounted as per the audited financial results for the year ended March 31, 2017 was ₹ 0.25 crore only. It shows that the company had recognized interest until publishing of results for the quarter December 31, 2016 and later de-recognized the interest while preparation and publishing of financial results for the year ended March 31, 2017. Further, the company did not make the disclosure

of the aggregate effect in the results w.r.t. adjustments made as de-recognition of interest & interest accrued which was accounted for the earlier periods/quarters. Thus, it is alleged that Magnum had violated the regulation 33(3)(i) of LODR Regulations.

In view of the above, this inconsistent and imprudent accounting treatment of non-recognition of interest expense $\approx$ ₹ 52.45 crore and the resultant financial liability for FY2016-17 was not in accordance with AS 1 and AS 16.

Thus, it is observed that net profit and net-worth of Magnum for FY2016-17 were overstated by $\approx$ ₹ 52.45 crore and liability to banks was understated by $\approx$ ₹ 52.45 crore.

- b. **For FY 2017-18, 2018-19 and 2019-20**, interest due to Vijaya Bank of $\approx$ ₹ 4.31 crore per year on Non-Restructured Loans were not recognized in the books of Magnum. The same was not in accordance with IND AS 1, 23, 32 and 109, considering the facts and circumstances as explained in foregoing paragraphs.

Thus, net profit and net-worth of the company for FY2017-18 to FY2019-20 were overstated by $\approx$ ₹ 4.31 crore each year and liability to banks was understated.

- c. The violation by the company was committed with the consent or connivance of, or is attributable to the neglect on the part of the Noticee nos. 2 to 10. Thus, it is alleged that the Noticees had violated regulations 4(1), 4(2)(e), 33(1)(a) and (c), 33(3)(i), 34(3) and 48 of LODR Regulations read with section 27(2) of SEBI Act.

Understatement of liability to AARC since FY 2017-18, as compared to the terms of Restructuring Plan:

12. The allegation in respect of the understatement of liability to AARC since FY 2017-18, as compared to the terms of Restructuring Plan, as alleged in the SCN, are as under:

- a. As per the Debt Assignment Agreement between the five banks and AARC (copy of Agreements are placed in Annexure 4 to ER) and the Restructuring Plan, Banks' entire financial assets pertaining to Magnum were assigned to AARC together with all rights, interests, guarantees & underlying securities. Hence, AARC has become secured creditor w.r.t. the said financial assets and entitled to recover from Magnum the total dues payable with future interest and other charges on contractual terms till the date of realization.
- b. With respect to Restructured Loans, the total principal outstanding dues assigned to AARC was ₹ 265.67 crore as on March 31, 2018.
- c. Magnum, vide Restructuring Plan dated March 31, 2018, has accepted to settle the dues in the following manner w.r.t. the five banks (details given in Table 1):

Repayment of loan spread over a period	– ₹ 171 crores
Conversion of debt into NCD (to be issued in future)	– ₹ 133 crores
Total financial liability to AARC	– ₹ 304 crores

- d. *The above facts indicate that as per the approved Restructuring Agreement, on a gross basis, the company's liability of ₹ 304 crores include ₹ 265.67 crores towards principal outstanding and ₹ 38.33 crores towards interest.*
- e. *In this regard, the company replied that the NCD part will be booked as & when issued. By their rationale, the amount of liability shown against AARC should have been ₹ 171 crores. At the same time, the company continued to show a liability to AARC of ₹ 265.67 crores which includes settlement through issue of NCDs in future. Thus, the accounting treatment contradicts with their own rationale.*
- f. *The statutory auditors also observed under Emphasis of Matters in their Independent Auditor's Report that "the NCDs are yet to be provided by the company".*
- g. *As per clause 11 of IND AS 32 and the Accrual Accounting policy, the total contractual obligation of ₹ 304 crores shall be shown as financial liability irrespective of the method of discharge of the same (i.e., Cash/NCD). Therefore, by not accounting correctly the total liability to AARC ₹ 304 crores in terms of the Restructuring Plan, Magnum understated the liabilities by ≈ ₹ 38.33 crore in its books since FY 2017-18 and the same is not in accordance with IND AS 32.*
- h. *Thus, in FY 2017-18, 2018-19 and 2019-20, liability to AARC was understated by ≈ ₹ 38.33 crore, resulting in overstatement of net-worth of the company to same extent.*
- i. *The violations by the company was committed with the consent or connivance of, or is attributable to the neglect on the part of the Noticee nos. 2 to 10. Thus, it is alleged that the Noticees had violated regulations 4(1), 4(2)(e), 33(1)(a) and (c), 34(3) and 48 of LODR Regulations read with section 27(2) of SEBI Act.*

Reply of the Noticees to Part A.

13. With respect to the allegations stated in Part A – "Accounting treatment of debt and interest was not in accordance with the GAAP and the applicable and notified Accounting Standards and the Company had fraudulently manipulated its financial position", the Noticees have submitted the following:

- a. *Due to business losses and the macroeconomic environment, the Company incurred losses and was unable to service its loans. Around 2013-2014, all the lenders of the Company classified the advances to the Company as a substandard and non-performing assets.*
- b. *In 2015-16, most of the banks assigned their loans to an asset reconstruction company under SARFAESI Act, 2002. The management of the Company was then in discussion with the ARC and remaining bank for a restructuring proposal and to get the company back on track with some one-time settlement (OTS) proposals.*
- c. *In this context, it is necessary to consider the annual report of the Company filed for 2016-2017 and the disclosures made by the Company therein.*

Page 17 to 19 – Directors Report, inter alia, stated the following:

“

The Auditor's Report does not contain any qualification, reservation or adverse remark except the following:

In Audit Report

1.

2.

.....

5. The Company has received communication from M/s Alchemist Assets Reconstruction Company Ltd. (AARC) that following Banks have assigned their dues to AARC as per details mentioned below:

<u>Name of the Bank</u>	<u>Month of Assignment</u>
Oriental Bank of Commerce	December 2015
Allahabad Bank	December 2015
Punjab National Bank	December 2016
Indian Overseas Bank	March 2017

The interest for the current year for the above mentioned loan is not booked and the provision for National interest for the abovementioned Loan of ₹ 111,56 Crores which was provided for in previous year, is reversed during the year.

In CARO

1. The Company has defaulted in the repayment of loans and borrowings of financial institutions and Banks. The Company has received communication from ARCC which is assigned by Banks for recovery of their dues.

Directors Response

In Audit Report

1.

2.

.....

5. The Company received communication that Oriental Bank of Commerce, Allahabad Bank, Punjab National Bank and Indian Overseas Bank has assigned their dues to AARC.

The Company is in the discussion with AARC to re-structure the account considering the economic scenario and AARC in-principally agreed to re-structure debts.

Based on this, the probability of payment of interest prior to assignment of debts seems remote. Hence, we have not booked interest for the current year for the debts assigned to AARC and provision for notional interest is also reversed.

In CARO

1. The Company has received communication from AARC which is assigned by Banks for recovery of their dues. The Company is in discussion with AARC to re-structure the amount of debts.”

Page 76 – Independent Auditors' Report, inter alia, stated the following:

“

BASIS FOR QUALIFIED OPINION

- a) The Company has received communication from AARC that following Banks have assigned their dues to AARC as per details mentioned below:

<u>Name of the Bank</u>	<u>Month of Assignment</u>
1. Oriental Bank of Commerce	December 2015
2. Allahabad Bank	December 2015
3. Punjab National Bank	December 2016
4. Indian Overseas Bank	March 2017

The provision for notional interest for the above mentioned loans of ₹ 111.56 Crore which was provided for in previous years, is reversed during the year. And the interest for the current year for the above mentioned loans is not booked (Refer Note No. 17 under other notes in Notes to Accounts annexed with the financial statement for the year ended March 31, 2017). However, the

Company has not received any communication from AARC regarding fixation of liability of the Company or waiver of interest amount on the abovementioned. The consequential effect (if any) on the financial statement remains unascertained.

Page 113 – inter alia, stated the following:

“.....

Further due to 2nd rework package approved by CDR in 2013-14 and as per RBI circular on repeated re-structuring, all banks classified the company's account as “sub-standard” and company had made a provision for Notional/ Uncharged interest.

The Company is in the discussion with AARC to re-structure our account considering the economic scenario and AARC in-principally agreed to re-structure the debts.

Based on the above, the probability of payment of interest after NPA date seems remote and company reversed the provision made for uncharged/ notional interest.”

- d. *It is trite law that India follows a disclosure-based regime whereby all information must be fairly disclosed to the shareholders and other stakeholders. It is also trite law that the preparation of financial statements is the responsibility of the management of the Company. If any auditor disagrees with some accounting treatment, the Company can either change the same or offer an explanation to the audit qualifications. Neither the auditors nor the regulators in India are empowered to specify how the accounts are to be presented. In the above screenshots, it is abundantly clear that:*

- i. Interest on loans was accruing and was recorded till FY 2015-2016;*
- ii. In 2016-2017, the management came to a conclusion that they will be able to (a) achieve an OTS with the ARC and therefore the accrued interest recorded so far was to be reversed; (b) the possibility of the management ever having to pay the said interest was extremely less; (c) in the opinion of the management who was negotiating with the ARC, the chances of the OTS failing were unlikely;*
- iii. The management decided to reverse the accrued interest. The auditors disagreed with the said representation and decided to qualify the report. The management gave its comments on the said qualification. Therefore, the act of reversal, the qualification of the auditor, and the comments from the management were all available to the reader to take an informed decision;*
- iv. The management decided to record the said accrued interest as a contingent liability as the same was contingent upon the conclusions reached in para (b) failing.*

Therefore, the management made all the disclosures to the public and all other stakeholders in the said Annual Report and did not hide a single fact.

- e. *As per the accounting standards, the first and foremost responsibility for publishing the financial results of the company is to provide a “true and fair” picture of the financial position of the company through our financial statements. As recorded in the SCN, the statutory auditors had already noted the fact that we had reversed the interest payable to banks and financial institutions and the board of directors of the Noticee had provided its clarification on the said observation. Therefore, all the readers of the financial statements were well aware of*

the fact that interest has not been provided for by the Noticee. It can hence be concluded that all appropriate disclosures were available in the financial statements for the readers to take an informed decision as to the financial position of the Company. Therefore, the shareholders of the Company as well as any person reading the financial statements of the Company were well aware of the accounting treatment for the interest on loans and the quantification of such interest on loans. It is not SEBI's case that the shareholders or the readers of the financial statements were misled in any manner whatsoever. If any person was desirous of giving an impact of the interest not booked in the books of accounts, the same could be easily done as the disclosures and the quantification was available in the financial statements.

- f. Since the Company was in an extremely precarious financial condition, it was certain that the Company will have to settle with its lenders and it would never be able to pay any interest to them. The lenders of the Company had also stopped recognising interest on an accrual basis on account of the prudential accounting norms. The same was since it would have never been possible to pay the lender's interest even if the Company had to undergo liquidation. As the only possibility was that Company would be settling with its lenders, it decided to stop recognising interest and reversed the already recognised interest to provide a true and fair view of the accounts to the shareholders.*
- g. If the interest payable was continued to be recorded, the same would amount to misstatement in the financial statement as the Company was never in a position to service the said interest nor was ever going to be in a position to pay it. The dues were eventually settled and the Company did not pay any interest amount. The Company did not even pay the entire principal amount to the lender banks / the ARC.*
- h. It is alleged that after the reversal in 2016-2017, the interest was not recorded in 2017-2018. If the interest payable was recorded, the same would amount to misstatement in the financial statement as the Company was never in a position to service the said interest.*
- i. It is further pertinent to note that several other listed companies have also followed the same accounting practice of not providing for interest cost and the noticee is not the only company to follow the said accounting practice. The said practice is followed by companies after the account turns out to be a non-performing asset and the banks stop recognising interest on the said accounts. Further, the prudential norms of the Reserve Bank of India require the banks and financial institutions to book interest on cash basis and the same was also followed by us as our account had become NPA.*
- j. It is pertinent to note that the Statutory Auditors of the Company had raised the issue by commenting upon the same in the Audit Report and the management of the Company had provided its reasoning for following a particular method of accounting. Both views were placed before the users and readers of the financial statements and the said readers were therefore enabled to take an objective view about the same. It cannot be said that a qualification in an Audit Report has to necessarily mean that there is non-compliance with accounting standards by a company. Every qualification in an audit report is in the opinion of the statutory auditor a deviation from the accounting standard. However, this does not entail that the Company has*

not followed a particular accounting standard. The corollary to the same would be that every single time there is a qualification in an audit report, SEBI then ought to initiate proceedings against each of such companies. However, the same can never be the case. The statutory auditors of the Company are well within their rights to qualify a report with comments and the management of the Company then has the right to justify its stand to the users of the financial statements. It is then for the users of the financial statements to take an objective view of the matter and make a decision.

- k. It is submitted that if the view proposed to be taken in the SCN is to be accepted, it would render the entire process of a management providing its comments on an audit qualification moot. It would entail that the moment there is a qualification in an audit report, the provisions of the Listing Agreement / LODR are violated. This certainly cannot be the intent of the legislature while inserting the relevant provisions. A more evolved reading would entail that if there is an audit qualification and the management has no explanation on why such an accounting practice has been followed, the same would render it to violate the Listing Agreement / LODR.
- l. In fact, in a recent order passed in the case of Radha Madhav Corporation Limited, the facts of the case were largely similar and SEBI had exonerated the Company for a similar treatment of interest on loans, which have turned to be NPA. In that case, Radha Madhav Corporation Limited was not recognising the interest as soon as the loans became NPA. Similar audit qualifications were made by their statutory auditor.
- m. The facts of the present case are similar. While we had booked the interest expense even though the loans turned NPA, we only reversed the same when there was visibility about the OTS and changed the liability to contingent liability. In our case as well, the audit qualification, management response and quantum of interest was disclosed to the readers and therefore there can be no allegation of any failure to disclose the relevant facts and material. At this juncture we would like to put forth that the current SCN relies on the opinion of EAC of ICAI, which was obtained in case of Radha Madhav Corporation Limited, but said entity has been exonerated of all charges vide its order dated April 23, 2019 and a similar treatment is warranted in the current case as well.
- n. With respect to the contents of paragraph(s) 3.1 of the SCN, it is submitted that paragraph itself reproduces the relevant accounting standards.
 - i. Re AS-1 – The accounting policy of the Company has been consistent and the reversal was not done secretly, but with full disclosure of the reasons for such a decision. If any reader found the decision to be incorrect, the quantification of the said decision was also easily possible for any rational mind. Further, the Company followed prudence and recognised the amounts till there was no visible certainty about an OTS with the ARC;
 - ii. Re AS-4 – AS-4 itself states that “However, when the realisation of a gain is virtually certain, then such gain is not a contingency and accounting for the gain is appropriate.”
 - iii. Re AS-5 - When items of income and expense (although they are not extraordinary items) within profit or loss from ordinary activities are of such size, nature or incidence

that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. A perusal of the Annual Report shows that the reversal was shown separately and the reasons for the same are contained in the accounts.

- iv. Re AS-16 and IND-AS 23, IND AS-32 and IND AS 109 – Borrowing costs were being recorded as expenses or capitalized as per AS-16. The issue is that when the interest accrued and booked was certain that it will not be payable, the Company reversed the same. It cannot be stated that the borrowing costs when incurred were not recorded;
- v. Re AS-20 – EPS was calculated after giving effect to the reversal. Any person with a basic sense of arithmetic can calculate the EPS without the effect of the reversal if he / she so desires. The entire information so needed for the calculation was available in the balance sheet;
- o. With respect to the contents of paragraph(s) 3.1.1 (a) to (i) of the SCN, the same are denied. It is submitted that the management of the company in its opinion had decided to reverse the interest and show the same as contingent liability. The decision on presentation of accounts has to be of the management as it is the best suited and has a first hand view of the happenings of events of the Company and SEBI cannot be permitted to substitute its wisdom for the wisdom of the management as to what is the decision to be taken. This would tantamount to SEBI being a supernatural power and deciding matters for boards and transgressing into the jurisdiction of business. In a disclosure-based regime, the Company can be guilty if it hides something from the readers. In this case, a bare perusal of the aforesaid annual report would show that the Company has disclosed the entire fact to the readers. The allegation in para (h) that the Company did not follow the accounting standard is completely baseless. The Hon'ble Supreme Court of India in the case of J. K. Industries Limited & Anr. vs Union of India basically explained the concept behind accounting standards.
- p. Section 129 of Companies Act, 2013 (which is pari materia to Section 211 of Companies Act, 1956) provides as follows:

“129. Financial statement.— (1) The financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III:

...

(5) Without prejudice to sub-section (1), where the financial statements of a company do not comply with the accounting standards referred to in sub-section (1), the company shall disclose in its financial statements, the deviation from the accounting standards, the reasons for such deviation and the financial effects, if any, arising out of such deviation.”
- q. Therefore, even the Companies Act, 2013 (as well as the old act) envisaged a situation whereby the company may deviate from the accounting standards. In the present case, as per the auditor, the Company deviated from the accounting standards and therefore there was an audit qualification which was appropriately answered. The corollary of what is stated in the SCN can have adverse consequences and would render sub section 5 of Section 129 otiose. It would mean that every single time an auditor has qualified an opinion; a company is

in breach. It would give needless (and unintended) powers to the auditors to specify how should a financial statement be made when the express caveat in the audit report is that of the management. The fundamental basis of Section 129(1) read with Section 129(5) is that there should be compliance with the accounting standard, but in a case where there is a deviation, the same must be quantified and explained. The management in its opinion felt that there is no deviation, the auditor felt that there was and therefore the qualification was given with quantification and the Company gave its comments on the said qualification. Even the Companies Act, 2013 (and the old act) strive towards a disclosure based regime where all the information is disclosed for the consumption of the stakeholder and not where the opinion of an auditor supersedes the one of the management.

- r. With respect to the contents of paragraph(s) 3.1.1 (j) to (l) of the SCN, the same are denied and are totally baseless. As stated hereinabove, the entire fact of the matter was disclosed in the annual report and there was no deception or suppression of information. The allegation of fraud is made against the Noticees perfunctorily and without any basis. The audit qualification and the accounting treatment were both disclosed and therefore the Noticees neither misrepresented the truth nor concealed any material fact, as alleged or at all. SEBI is put to strict proof to establish that the accounting treatment or the audit report were not disclosed. The PFUTP Regulations are intent based regulations. Fraud cannot merely be alleged in such a casual manner or else the entire meaning to that regulation is lost. The way the SCN has been framed would entail that every disclosure violation under the Securities Laws can be said to be fraudulent. Clearly that was not the intent of the legislature and the allegation of fraud in a case where everything is disclosed in an annual report is clearly unsustainable.*
- s. With respect to the contents of paragraph(s) 3.1.2 and 3.1.3, the same are denied. The submissions regarding non recognition of interest expense has been dealt with in great detail hereinabove and the same are repeated and reiterated.*

14. Noticees vide reply dated December 28, 2022 made the following further submissions:

“We had reversed interest of ₹ 111.56 Crores in the Financial Year 2016-17, which was charged to the Profit and Loss account in the earlier years and non-provisioning of interest for Financial Year 16-17 to an extent of ₹ 52.45 Crores, we have been called upon to clarify whether we have been required pay this to the banks or ARCs till date.

- a. It can be observed from the Note 3 on page 90 of the Annual Report for year ended March 31, 2017 that the principal outstanding from all 5 banks other than Vijaya Bank was ₹ 265 Crores.*
- b. We annex herewith as Exhibit A, the letters of settlement of outstanding dues with ARC. The said Exhibit contains settlement terms of all 5 banks viz. Syndicate Bank, Punjab National Bank, Oriental Bank of Commerce, Indian Overseas Bank and Allahbad Bank.*

- c. Annexure C of each of these letters of 5 banks contains debt profile which records the principle amount and the total principle as per the settlement letters is also ₹ 265 Crores which tallies with the amount reflected in the financial statements for the year ended March 31, 2017.
- d. Annexure B of these letters contains the repayment schedule which incorporates the table of repayment. The total of Annexure B of all 5 banks put together comes to ₹ 217 Crore.
- e. Thus it can be observed that the amount payable under these arrangements is less than even the principal amount which substantiates that we have neither paid nor will be required to pay a single naya paisa as interest to these 5 banks.
- f. Further as per Note 3 on page 90 of the Annual Report for year ended March 31, 2017 the outstanding of Vijaya Bank is ₹ 23.8 Crores. The outstanding as per the bank statement for the year ended March 31, 2021 is also ₹ 23.8 Crores. A copy of the statement is annexed herewith and marked as Exhibit B.
- g. Thus no interest has either been booked or recorded by us or the bank.
- h. We therefore submit that the reversal of interest provided in the books of accounts and not providing interest for subsequent results was the correct treatment in the books of accounts.”

Part B

Provisioning for doubtful debts and complete reversal of the same in succeeding year and inflating the financial result of Magnum for FY 2016-17.

15. The allegations in respect of provisioning for doubtful debts and complete reversal of the same in succeeding year and inflating the financial result of Magnum for FY 2016-17, as alleged in the SCN, are as under:

- i. The Company had made a provision of ₹ 17.96 crore in the FY 2015-16 [i.e., 100% of total debtors outstanding for more than 12 months]. This entire provision of ₹ 17.96 crore was reversed in the FY 2016-17 despite ₹ 9.32 crore being outstanding as on 31.3.2017 from the debtors for whom provision was made. Further, no fresh provision was made in FY 2016-17 when outstanding debtors of ₹ 11.25 crore were due for more than 12 months. This reversal of provision was not consistent with their own practice and had inflated net profit by ₹ 17.96 crore in FY 2016-17.
- j. It is noted that the Independent Auditor's Report for FY 2016-17 contains an audit qualification w.r.t. the non-provisioning for debtors outstanding more than six months and the reversal of previous year's entire provision.
- k. Further, as per the Report of Internal Financial Control for FY 2016-17, the auditors observed that Company does not have adequate internal financial control system commensurate with the size of the Company and the nature of its business with regard to the sale of goods referring to their inability to collect sale proceeds.

- l. *Vide email dated October 18, 2021, the Company was inter alia advised to submit specific details regarding Top 10 debtors in terms of provision made in FY 2015-16. As per the company's submission dated November 3, 2021, November 16, 2021 and November 24, 2021, the following are inter alia observed in this regard:*
- i) No provision for doubtful/ bad debts was made in any financial year other than FY 2015-16.*
 - ii) Total amount outstanding from the said Top 10 debtors as on 31.03.2016 was ≈ ₹ 11 crore against which a provision of ≈ ₹ 10 crore was made.*
 - iii) During FY 2015-16, 100% provision for doubtful debts was created for debtors ageing more than 12 months.*
 - iv) The company stated that the said provision was created as per its policy and based on the erudite assessment of the dealing person in respect of recovery of debts. However, there appears to be an inconsistency in the accounting practices adopted as the company did not create any provision before or after this financial year, even though similar conditions prevailed.*
- m. *In view of the above, the huge provisioning for doubtful debts in FY2015-16 in an abnormal manner and its complete reversal in FY2016-17, as discussed above, along with the concealment of Qualified Audit Report from the public for manipulating the share price as explained at para 3.3 is ostensibly fraudulent. It is alleged that this was part of a device, scheme or artifice designed and executed by the Noticees to defraud the investors by publishing an inflated net profit for FY2016-17, which significantly and manipulatively impacted the price of the scrip from ₹ 3.55 to ₹ 23.85 after publication of results. This appears fraudulent in terms of Regulation 2(1)(c) of PFUTP Regulations.*
- n. *Thus, the noticees had significantly manipulated the price of the scrip by materially manipulating the financial results through drastic change of accounting treatment of provisioning for doubtful debts in financial year 2016-17 and followed by concealment of audit qualifications as explained at para 3.3. Thus, the noticees devised a fraudulent scheme by knowingly misrepresenting the truth and concealment of material fact (i.e., audit qualifications) and thereby disclosing the financial statements which does not provide true and fair view of the company's financial position. This also contributed to the significant and manipulative fluctuation in the price of the scrip as discussed in para 3.3. The violations by the company was committed with the consent or connivance of, or is attributable to the neglect on the part of the noticee no. 2 to 10. Therefore, the noticees had violated regulations 3(b), (c) & (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of PFUTP Regulations read with sections 12A (a), (b), (c) of the SEBI Act.*

Audit qualifications and Directors' Response w.r.t. observations at para 3.1 and 3.2:

- o. *The audit qualifications in the Independent Auditor's Report for FY 2016-17 w.r.t. the observations at para 3.1 and 3.2 are reproduced as follows:*

- a) The Company has received communication from M/s Alchemist Assets Reconstruction Company Ltd. (AARC) that following Banks have assigned their dues to M/s Alchemist Assets Reconstruction Company Ltd. (AARC) as per details mentioned below:

<u>Name of the Bank</u>	<u>Month of Assignment</u>
1. Oriental Bank of Commerce	December 2015
2. Allahabad Bank	December 2015
3. Punjab National Bank	December 2016
4. Indian Overseas Bank	March 2017

The provision for notional interest for the above mentioned loans of ₹ 111.56 Crore which was provided for in previous years, is reversed during the year. And the interest for the current year for the above mentioned loans is not booked (Refer Note No. 17 under other notes in Notes to Accounts annexed with the financial statements for the year ended March 31, 2017). However, the company has not received any communication from AARC regarding fixation of liability of the company or waiver of interest amount on the abovementioned. The consequential effect (if any) on the financial statement remains unascertained.

- b) Refer Note No. 8 under other notes in Notes to Accounts annexed with the financial statements for the year ended March 31, 2017 wherein the total outstanding Debtors for the year ended March 31, 2017, include ₹ 2662.41 lakhs which are due for more than six months out of which Debtors of ₹ 7.65 lakhs are under litigations. The company has not made any provision for debtors outstanding for more than six months. The company had made a provision of ₹ 1796 lakhs for the year ended March 31, 2016. The management has reversed the provision in spite ₹ 932 lakhs are still outstanding from the debtors for whom provision was made.

The Directors' response in Directors Report w.r.t. audit qualifications are reproduced below:

- a) The Company received communication that Oriental Bank of Commerce, Allahabad Bank, Punjab National Bank and Indian Overseas Bank has assigned their dues to M/s Alchemist Assets Reconstruction Company Ltd. The Company is in the discussion with M/s Alchemist Assets Reconstruction Company Ltd. (AARC) to re-structure the account considering the economic scenario and AARC in-principally agreed to re-structure the debts. Based on this, the probability of payment of interest prior to assignment of debts seems remote. Hence, we have not booked interest for the current year for the debts assigned to AARC and provision for notional interest is also reversed.
- b) The Company is following with the debtors for recovery of old dues and taking necessary steps for recovering the old dues amount. Further Company has filed case u/s 138 of Negotiable Instrument Act 1881 for debtor of ₹ 110.13 lacs and expected to recover soon.

The overall misstatements discussed at para 3.1 and 3.2 is summarized as under:

- p. The net profit and net worth of Magnum were manipulated/overstated by way of misstatement of liabilities, income & expense, timing difference, etc as follows:

		Table-2 (INR in Crore)				
S N	Particulars	Refer Para No	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
a	Reversal of accumulated interest accrued for all banks (income & liability)	3.1.1.	111.56	0	0	0
b	Reversal of accumulated interest accrued on Non-restructured Loans (liability)	3.1.1.(e)(i) 3.1.2.(b)	0	15.96	20.27	24.58
c	Non-recognition of interest expenses for all banks (expense & liability)	3.1.2.(a)	52.45	0	0	0
d	Non-recognition of interest	3.1.2.(b)	0	4.31	4.31	4.31

	expenses for Non-restructured Loans (expense)					
e	Non-recognition of interest liability to AARC as per Restructuring Plan (liability)	3.1.3.	NA	38.33	38.33	38.33
f	Non-recognition of interest liability to AARC as per Restructuring Plan (expense)	3.1.3.	NA	38.33	0	0
g	Suspicious Reversal of Provision for doubtful debts (income and liability)	3.2	17.96	0	0	0
H	Total Understatement in liability to banks/AARC (a+b+c+e+g)		181.97	54.29	58.60	62.91
I	Overstatement of net profit in P&L (a+c+d+f+g) (by misstatement of expenses/income)		181.97	42.64	4.31	4.31
J	Overstatement of Net-worth (a+b+c+e+g)		181.97	54.29	58.60	62.91
K	Net Profit / (Loss) reported in P&L		103.16	0.76	(0.06)	(12.17)
L	Net Profit / (Loss), if alleged misstatements were not made (K – I)		(78.81)	(41.88)	(4.37)	(16.48)

- q. From the foregoing, it is alleged that the accounting treatment of interest expense and liabilities was not on the basis of fundamental accounting assumption of 'accrual' and not in accordance with the GAAP and the applicable and notified Accounting Standards viz. AS 1, AS 4, AS 5, AS 16, IND AS 1, IND AS 23, IND AS 32 and IND AS 109. It is pertinent to note that the statutory auditor of Magnum has, vide letter dated October 27, 2021, stated that since the reversal of the interest already provided by the company was not in conformity with the GAAP and they had highlighted the same and given a qualified opinion in the audit report for FY2016-17.
- r. With respect to certain management decisions referred by the company in their submissions relating to the alleged irregularities observed in the accounting treatments, the Company inter alia informed that those matters were part of discussion of the Board Meeting wherein the results were approved by the Board and submitted the extracts of Board Resolutions / copy of minutes approving the financial results for each year. The reply and extract/copy of minutes submitted by the Company indicates that the financial results were approved by the Audit Committee and the Board as it is, despite the fact that there were specific audit qualifications regarding the said accounting irregularities contributing to substantial inflation of net profit. Mr. Parveen Kumar Jain, Mr. Rakesh Garg and Mr. Subash Oswal (i.e., Noticees 7, 8 and 9) were the members of Audit Committee which considered the financial results for quarter and year ended March 31, 2017.
- s. In view of the foregoing, it is alleged that the Noticees had fraudulently manipulated publicly reported financial statements of Magnum to the extent of approximately ₹ 181.97 crore for FY 2016-17, ₹ 54.29 crore for FY 2017-18 and ₹ 58.60 crore for FY 2018-19 and ₹ 62.91 crore for FY 2019-20. It is alleged that this act operated as a device/scheme/artifice to deceive and defraud the investors dealing in the equity shares of Magnum. As explained below in para 3.3,

the abnormal surge in the price volume data of the scrip after May 29, 2017, shows that by manipulatively inflating the net profit of Magnum for the quarter and year ended March 31, 2017, the noticees had directly or indirectly induced the public to trade in the scrip. The violation by the company was committed with the consent or connivance of, or is attributable to the neglect on the part of the noticee no. 2 to 10. Thus, it is alleged that the Noticees had violated regulations 4(1), 4(2)(e), 33(1)(a) and (c), 33(3)(i), 34(3) and 48 of LODR Regulations.

- t. *As seen from above, by the reversal of accumulated interest accrued, reversal of provision for doubtful debts and failing to recognize interest expense on loans in the books of accounts, the company had inflated the net profit and net-worth in its financial statements. Thus, the Noticees had published the manipulated financial results for the FY2016-17, FY2017-18, FY2018-19 and FY2019-20, which were untrue and misleading and operated as deceit not only on the shareholders of Magnum but also on the public being misled about the financial health of the company. This significantly impacted and manipulated the market price of the scrip upon publication of financial results for the quarter and year ended March 31, 2017 as explained at para 3.3. As the management of Magnum misrepresented the financial statement, true value of the scrip was not reflected in its price. Accordingly, the management of Magnum impaired the decision making of the public and induced the public to trade in the scrip of Magnum which is evidenced from the price volume data given under para 3.3. The violation by the company was committed with the consent or connivance of, or is attributable to neglect on the part of the noticee no. 2 to 10. Thus, it is alleged that the Noticees had violated regulations 3(b), (c) & (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of PFUTP Regulations read with sections 12A (a), (b), (c) of the SEBI Act.*

Reply of the Noticees to Part B.

16. With respect to the allegations stated in Part B – “Provisioning for doubtful debts and complete reversal of the same in succeeding year and inflating the financial result of Magnum for FY 2016-17”, the Noticees, vide reply dated October 15, 2022, *inter alia* submitted the following:

- a. *With respect to the contents of paragraph(s) 3.2, it is submitted that the management took a decision to write off all debtors, which were due for more than one year as the possibility of recovery was weak. Subsequently, in the next year, attempts were made and recoveries started. The intent of the write off was to ensure that the balance sheet shows a true and fair picture of the affairs of the Company.*
- b. *Since ~ 50% recovery was done in the subsequent year itself, it was thought that the provisioning should be reversed as the management was being able to recover the said sums. In any event, the write off and write back was all disclosed to the readers of the*

balance sheet and cannot constitute any violation of the accounting standards. The said was a management decision and as a regulator SEBI does not seek to sit to second guess management decision. This would amount to micromanagement of the board by the regulator which is not the intent and object of the SEBI Act. In a disclosure based regime, the thrust is on the fact that facts are disclosed. These facts were well disclosed in the annual report.

- c. With respect to the contents of paragraph(s) 3.2.1 to 3.2.6, the same are denied. The submissions regarding reversal of interest and the impact on the financials has been dealt with in great detail hereinabove and the same are repeated and reiterated.

17. The Noticees vide reply dated December 28, 2022 further submitted the following:

- a. As regards the further clarification sought regarding the reversal of provision for bad debts made in the year 2015-16 to an extent of ₹ 17.96 Crores and reversal thereof in the year 2016-17 it is submitted as under:
- The management connected with each of the debtors directly and got a firsthand feedback of the possibility of recovery.
 - The reversal was carried out as per the policy of the Company based on reasonable estimates of possible recovery.
 - Post the reversal, the Management took up rigorous efforts to ensure that the recoveries are done and the year wise recovery data submitted in response dated October 15, 2022 substantiates the same and is reproduced hereunder for ready reference.

Total Amount of Provision (2015-16) is ₹	17,96,52,306.00
FINANCIAL YEAR	PAYMENT RECEIVED
2016-17	8,66,17,975.75
2017-18	3,25,21,864.00
2018-19	1,73,16,304.00
2019-20	49,41,157.00
2020-21	20,50,042.00
2021-22	3,36,55,684.25
April 1, 2022-Dec 15, 2022	24,93,370.00
Total	17,95,96,397.00
Amount Outstanding as on 15.12.2022	55,909.00

- From the above table it can be observed that ₹ 8.66 Crores were recovered in FY 2016-17 itself and therefore it was necessary to reverse the same.
- Further engagements with remaining debtors was also expected to yield results based on the recovery done in FY 2016-17 and the discussions with the debtors.
- In the next two years i.e. FY 17-18 and 18-19, substantial recovery of ₹ 3.25 Crores and ₹ 1.73 Crores was done totalling to ₹ 4.98 or almost ₹ 5 Crores.
- The next two years were the most difficult years for the entire country due to spread of pandemic and lockdowns pursuant thereto as a result of which all businesses came to a

standstill. However, because of the persistent efforts the Company could recover close to ₹ 70 Lakhs in FY 2019-20 and 2020-21 in spite of catastrophic difficulties due to spread of pandemic.

- viii) In the FY 2021-22 the businesses started coming to life again and in the financial year the Company recovered further ₹ 3.36 Crores which comprised of almost all amounts being recovered.
 - ix) In the current FY 2022-23 till the December 15, 2022, the Company recovered ₹ 24.9 Lacs and the only a paltry sum of ₹ 55,909/- remained pending as on December 15, 2022.
 - x) From the above instances it can be observed that the reversal of provision done by the management was correct and no fault can be found with it.
- b. As regards the accounting provision for reversal of debtors, it is submitted that the management takes decision to provide provision for doubtful debtors, which become due for more than a particular period and the dealing person also have doubt about recovery. The intent of the write off always to ensure that the balance sheet shows a true and fair picture of the affairs of the Company. The provision for doubtful debt and how to deal with is based on the policy of the Company in this regard.

PART C

Concealment of audit qualifications at the time of disclosure of audited financial results for the quarter and year ended March 31, 2017 to BSE/ NSE, causing significant fluctuations in share price of the Company.

18. The allegations in respect of concealment of audit qualifications, as alleged in the SCN, are as under:

- a. It is alleged that Magnum has concealed the Qualified Audit Report from the public for a period of 50 days since the audited financial results for the quarter and year ended March 31, 2017 was disclosed. It is also alleged that Magnum had published manipulated financial results inflating net profit for FY2016-17 by ≈ ₹ 182 crore as explained at para 3.1 & 3.2 and reported a 213% increase in profitability from FY2016 to FY2017 (i.e., from a net loss of ₹ 91 crore to a net profit of ₹ 103 crore).
- b. The audited financial results for the quarter and year ended March 31, 2017 was filed with the exchange on May 29, 2017 without accompanied by the Qualified Audit Report containing various audit qualifications regarding reversal/non-provisioning of interest and reversal of provision for doubtful debts, etc. which primarily contributed to the inflated net profit by ≈ ₹ 182 crore. Later, in response to BSE's email dated July 13, 2017, the company re-submitted the financial results for FY2016-17 only with BSE on July 19, 2017 (only after 6 days of BSE

email) along with the aforesaid Qualified Audit Report dated May 29, 2017. However, such re-submission with NSE could not be found. Further, vide a corporate announcement with NSE dated August 03, 2017, Magnum filed an explanation for sudden spurt/fluctuations in the price of shares wherein it was stated that the company, any of its promoters or directors do not have any knowledge of the reasons leading sudden price variations and there is no specific announcement or information made available by the company which would have any impact or bearing on the price or volume of the shares traded. This is an incorrect explanation/announcement considering that there was an announcement of results post which significant fluctuations in price is noticed. It is alleged that, both these non-resubmission of results (along with Qualified Audit Report) with NSE even after the matter was brought to the notice of the company and incorrect announcement by the company to NSE w.r.t. sudden price fluctuations corroborate that the publishing of manipulated results and concealment of Qualified Audit Report from public was a deliberate and fraudulent device, scheme or artifice to deceive and defraud the shareholders and investors dealing in equity shares of Magnum.

- c. It is alleged that as a result of inflating the net profit and concealing the Qualified Audit Report, the investors in the securities market were fraudulently induced and deceived in taking investment decisions. This can be seen from the rise in average no. of shares traded per day from 3,890 shares during May 01 – 28, 2017 to 1,71,706 shares during May 29 to July 18, 2017. This had manipulatively influenced the share price with a continuous rise after filing of results from May 29, 2017 to July 14, 2017 from ₹ 3.35 to ₹ 23.85 with an impact of around 700% and continuous fall in price thereafter upon re-submission of the results along with Qualified Audit Report to ₹ 10.07 by August 04, 2017 and to ₹ 5.95 by July 20, 2018. During this period, the scrip was continuously hitting the upper circuit filters as long as the information on audit qualifications was concealed and was hitting lower circuit filters subsequently. The price chart is given below:



Table-3

Sample date	19.5.2017	29.5.2017 #	31.5.2017	14.7.2017	19.7.2017 \$	4.8.2017	20.7.2018
Share price (₹)	3.60	3.55	4.82	23.85	18.53	10.07	5.95
No. of shares traded @	1110	102	11671	585392	5840	166402	400

Date of filing with BSE and NSE of audited financial results which were manipulated/inflated and the Qualified Audit Report was concealed.

\$ Date of re-filing of said results along with Qualified Audit Report only with BSE.

@ It is observed that the Average No. of shares traded per day during May 01 to 28, 2017 was 3,890 shares and the same during May 29 to July 18, 2017 was 1,71,706 shares.

- d. The events led to the manipulation in share price of the scrip of Magnum on BSE after May 29, 2017 is tabulated as follows:

S.N.	Date/Period	Particulars
1	May 29, 2017	Statutory Auditor issued the Independent Auditor's Report (Qualified) on the financial results for the quarter and year ended March 31, 2017
2	May 29, 2017	The said audited financial results was approved by the Audit Committee and Board of Directors.
3	May 29, 2017	Magnum filed the said audited financial results (wherein the net profit was allegedly inflated by ₹ 182 crore) with BSE and NSE and concealed the Qualified Audit Report while filing with the exchanges (which contain specific audit qualification on the accounting irregularities contributing to inflation of net profit).
4	May 29, 2017 to July 13, 2017	The price of the scrip continuously raised from ₹ 3.55 to ₹ 22.72 with average no. of shares traded of 1,68,892 per day.
5	July 13, 2017	Magnum received an email from BSE regarding submission of audited financial results in the revised format as per Schedule III of the Companies Act, 2013.
6	July 14, 2017	The price reached the high of ₹ 23.85 with 5,85,392 shares traded on the day
7	July 19, 2017	Magnum re-submitted the audited financial results with BSE along with the Qualified Audit Report. It was mentioned that there is no change in the figures of financial results as submitted before on May 29, 2017.
8	July 15 to Aug 04, 2017	The price of the scrip continuously dropped from ₹ 21.59 to ₹ 10.07 pursuant to the receipt of email from BSE for re-submission of results and subsequent disclosure of audit qualifications.
9	Aug 03, 2017	Magnum filed a corporate announcement with NSE stating that the company, any of its promoters or directors do not have any knowledge of the reasons leading sudden price variations in scrip and there is no specific announcement or information made available by the company which would have any impact or bearing on the price or volume of the shares traded. This is an incorrect explanation/ announcement considering that there was an announcement of results post which significant fluctuations in price is noticed.

- e. It is also noted, during the examination period, that the company had filed the audited financial results for the quarter and year ended March 31, 2016, March 31, 2018, March 31, 2019 and March 31, 2020 along with the complete audit report. The concealment of the audit report and audit qualifications was observed while filing the audited financial results for the quarter and year ended March 31, 2017 only, wherein the net profit of the company was substantially and fraudulently inflated, causing significant fluctuation/manipulation in the market price of the scrip of Magnum.

- f. *As per regulation 33(3)(c)(ii) of LODR Regulations, the audited quarterly and year-to-date financial results submitted by the listed entity shall be accompanied by the audit report. As per regulation 33(3)(d) of LODR Regulations, the listed entity shall submit annual audited standalone financial results for the financial year, within sixty days from the end of the financial year along with the audit report and [Statement on Impact of Audit Qualifications (applicable only) for audit report with modified opinion. In the instant case, Magnum fraudulently concealed the Qualified Audit Report while filing financial results.*
- g. *As seen above, by publishing manipulated financial results with substantially inflated net profit for FY 2016-17 and concealment of the Qualified Audit Report from the public, it is alleged that the Noticees had induced the investors in securities market to trade in the scrip of Magnum and deceived them. The resultant unusual rise and fall in share price tantamount to fraudulent manipulation of price of the scrip after May 29, 2017. The violation by the company was committed with the consent or connivance of, or is attributable to neglect on the part of the noticee no. 2 to 10. Hence, it is alleged that the Noticees had violated regulations 3(b), (c) & (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of PFUTP Regulations read with sections 12A (a), (b), (c) of the SEBI Act and regulation 33(3)(c)(ii) and 33(3)(d) of LODR Regulations.*

Reply of the Noticees to Part C.

19. With respect to the allegations stated in Part C – “Concealment of audit qualifications at the time of disclosure of audited financial results for the quarter and year ended March 31, 2017 to BSE/ NSE, causing significant fluctuations in share price of the Company”, the Noticees, vide reply dated October 15, 2022, submitted the following:

- a. *With respect to the contents of paragraph(s) 3.3, the same are denied. It is submitted that the allegation that “by publishing manipulated financial results with substantially inflated net profit for FY 2016-17 and concealment of the Qualified Audit Report from the public, it is alleged that the Noticees had induced the investors in securities market to trade in the scrip of Magnum and deceived them”. The said paragraph is directly contrary to what has been stated in paragraph 3.2.1. It is not in dispute that the audit report was disclosed along with the annual report. The qualification in the audit report was also disclosed. The response of the management was also disclosed in the said annual report. It is therefore preposterous to suggest that the audit report was not disclosed or that the qualifications in the audit report were not disclosed.*
- b. *There was an administrative error while selecting the nature of the audit report while uploading and the same was rectified when the BSE pointed the said mistake. Further the results declared to the Exchanges clearly recorded exceptional items in the form of reversal of interest and therefore the allegation of misleading the investors does not hold good. The*

allegation is therefore totally unsustainable. It must further be noted that the allegation regarding the price rise and price fall are totally irrelevant.

- c. Admittedly, none of the Noticees or any other related person or KMP ever traded in the scrip during the said period and therefore the said allegations are a distinction without any difference. It must be further noted that although an allegation has been made that there has been a price rise and thereafter a price fall, the same cannot and does not correspond with the disclosure of the said audit report. The Table at pg. 20 of the SCN itself states that the financials were filed on 29 May 2017 and this categorically recorded the details of exceptional items and its nature. Therefore, the said information was in the public domain and the alleged price rise or price fall cannot be attributed to any act of the Noticees. Further upon highlighting by BSE the Audit Report was immediately submitted. Above all the Annual Report had the entire audit report.*
- d. In any event, neither the Noticees or their family members or any person connected to them have even been alleged to have traded in the said scrip. The allegation that the audit report was concealed is based on surmises and conjectures and the entire allegation of concealment was belied by the fact that exceptional items were clearly reflected in the results and the annual report (with the entire audit report) has been in public domain when filed.*

20. The Noticees, vide reply dated December 28, 2022, further submitted the following:

- a. Due to a technical and unintentional error on the part of our Company Secretary and Compliance Officer the same was not annexed. BSE had written an email in this regard on July 13, 2017 and we submitted the same result along with the Auditor's report on July 19, 2017. It may kindly be noted that our CS and Compliance Officer at the relevant time was Ms. Neha Gupta and in her reply to the SCN, she has admitted that it was a laps on the part of the secretarial department. We humbly submit that the error was completely inadvertent and the report was submitted in 4 working days of receiving email from BSE.*

Part D

Published Limited Review or Audit Reports issued by auditor who doesn't hold valid Peer Review Certificate during the FY 2016-17 to FY 2019-20.

21. The allegations in respect of publishing Limited Review or Audit Reports issued by auditor who doesn't hold valid Peer Review Certificate during the FY 2016-17 to FY 2019-20, as alleged in the SCN, are as under:

- a. *During the Examination Period FY 2016-17 to FY 2019-20, the limited review reports or audit reports submitted to the stock exchange(s) are given by the statutory auditor M/s. Aggarwal & Rampal, chartered accountants, who do not hold a valid certificate issued by the Peer Review Board of the ICAI. Despite the repeated observations in the Annual Secretarial Compliance Report for the FY 2019-20 and FY 2020-21 in this regard, the company failed to take necessary corrective steps and continued the non-compliance. In this regard, vide his letter dated October 27, 2021, the auditor has submitted his Peer Review Certificate which is valid only from June 10, 2021. The auditor has also accepted that he didn't have Peer Review Certificate valid for the Examination Period, but it was undergoing the peer review process. The violation by the company was committed with the consent or connivance of, or is attributable to neglect on the part of the noticee no. 2 to 10. Thus, it is alleged that the Noticees had violated regulation 33(1)(d) of LODR Regulations r/w section 27(2) of SEBI Act.*

Reply of the Noticees to Part D.

22. With respect to the allegations stated in Part D – “*Published Limited Review or Audit Reports issued by auditor who doesn't hold valid Peer Review Certificate during the FY 2016-17 to FY 2019-20*”, the Noticees, vide reply dated October 15, 2022, submitted the following:

- a. *Our Auditors were also called upon by SEBI in our matter and have been questioned over the issue. The said Auditors have submitted a statement that categorically records that there was a delayed at the part of the auditor and the same resulted in a patch where the Auditors did not hold a peer review certificate. As of now the auditor firm hold a valid peer review certificate. It is humbly submitted that the same is a technical / venial default as admittedly by the said auditor but the said act does not amount to any substantive violation of the LODR Regulations.*

23. The Noticees, vide reply dated December 01, 2022 and December 28, 2022, further submitted the following:

- a. *We wish to bring to your attention the ICAI Announcement of the Peer Review Board dated 10 November 2022 (available at <https://www.icai.org/post/certificates-issued-by-prb-to-practice-units-without-end-date>). A copy of the Announcement is annexed herewith and marked as Annexure A.*
- b. *In the said announcement it was stated that “... the Council at its 413th Meeting held in August 2022 has decided that in respect of Peer Review Certificates issued till April 16, 2015*

without the mention of end date, the end date shall be 31st December 2022 and till this date, the validity of such certificates shall be continued.”

- c. Therefore, even if any auditor had a certificate without a particular validity date, the said certificate was valid and it is only in November 2022 that the ICAI discontinued the concept of Peer Review Certificate without any validity dates and gave a validity date of 31 December 2022 to all such certificates.*
- d. A perusal of the peer review certificate of our auditor same would show that the same had no validity certified on the same and therefore by virtue of the ICAI announcement, the said certificate is valid till December 2022.*
- e. In view of the same, it is most respectfully submitted that the charge in paragraph 3.4 is unsustainable and our auditor held a valid peer review certificate at the relevant time.*

Part E

Non-disclosure/ incorrect disclosure of information in Annual Reports.

24. The allegations in respect of non-disclosure/ incorrect disclosure of information in Annual Reports, as alleged in the SCN, are as under:

- a. Failed to submit Statement on Impact of Audit Qualifications in Annual Reports:*
 - i) The Independent Auditor's Report for the FY 2016-17 contains audit qualifications regarding reversal of Interest Accrued of ₹ 111.56 crore, reversal of provision for doubtful debts ₹ 17.96 crore, not booking interest expense on loans, etc.*
 - ii) The Independent Auditor's Report for the FY 2019-20 contains audit qualification regarding non-provisioning in lieu of the impact of Covid 19 pandemic to its financial assets in contravention to the guidelines/advisory issued by ICAI.*
 - iii) As per regulation 34(2)(a) of LODR Regulations, the annual report shall inter alia contain audited financial statements i.e. balance sheets, profit and loss accounts etc., and Statement on Impact of Audit Qualifications (inserted in LODR w.e.f. 1.4.2016) as stipulated in regulation 33(3)(d), if applicable.*
 - iv) However, the Annual Reports of the company for FY 2016-17 and FY 2019-20 did not contain the 'Statement on Impact of Audit Qualifications' while there were audit qualifications in the Auditor's Report.*
- b. The terms of repayment, period & amount of default and rate of interest for the long term loan with Vijaya Bank were not mentioned in the Annual Reports for FY2016-17 to FY 2019-20. This is not in compliance with para 8.3.1 and 6 (C) of Schedule III of Companies Act, 2013 which stipulates that these details should be disclosed in the Notes to Accounts. Therefore, it is alleged that the said non-disclosure and non-compliance with Companies Act is a violation of regulation 34(3) of LODR Regulations.*

- c. In Note 23 of the Annual Report (AR) for FY 2019-20, on page 88 where YoY comparison is made, the amount shown for previous year FY2018-19 w.r.t. the following particulars were not the same as presented in Annual Report for FY2018-19:

Table-4

(INR in lakh)

Particulars	FY 2018-19		Company's reply
	Correct amount in the Annual Report for FY 2018-19	Wrongly reported amount under previous year column in the AR for FY 2019-20	
Banquet and Decoration expenses	148.12	0.76	The amount reported under previous year column in the Annual Report was wrong due to typographical error.
Legal & Professional (under other expenses)	155.83	1.53	
Rent, Hire, Storage charges	163.32	7.74	

- d. Considering the size of variation in the wrongly reported amount and the correct amount, the company's reply stating that these discrepancies were due to typographical error reflects the lack of care and due diligence from the management and statutory auditor in publishing of financial statements.
- e. In view of the observations at para 3.5, the violation by the company was committed with the consent or connivance of, or is attributable to neglect on the part of the noticee no. 2 to 10. Hence, it is alleged that Noticees had violated regulations 33(3)(d), 34(2)(a) and 34(3) of LODR Regulations read with section 27(2) of SEBI Act.

Reply of the Noticees to Part E.

25. With respect to the aforesaid allegations stated in Part E – “Non-disclosure/ incorrect disclosure of information in Annual Reports”, the Noticees, vide reply dated October 15, 2022, submitted the following:

- a. It is submitted that the annual report contained the details of the audit qualification. The impact of the same was also stated in the qualification. The allegation in the paragraph is one of technical/ venial nature and is totally unsustainable.
- b. Further with reference to para 3.5.2 the outstanding of Vijaya Bank the balance was clearly disclosed in the financials of all these years and the same has been settled at ₹ 23.79 Crores which was disclosed in the Annual Reports. Further the OTS was agreed upon in the month of September 2021 and we are required to make a payment of ₹ 27 Crores till November 2022, which includes an additional payment of ₹ 3.21 Crores for period after the alleged years where disclosures were not made. It can therefore be observed that the liability was fully recognised and is settled at the same value and other related issues are technical in nature.

Above all the interest reversed on this loan has not been required to be paid even at the time of settlement and therefore the reversal thereof was the correct treatment.

- c. *With reference to para 3.5.3 it is submitted that the incorrect numbers in notes to the accounts of the previous year in the annual report for FY 19-20 was a typing error. The P&L account correctly reflected the numbers of previous years and this itself substantiates that the error was unintentional. Further the numbers of current year, which are the most relevant for the users were correct and no fault has been found with them. The previous year's numbers were otherwise correctly published in the previous financial year and this is merely a technical error and not a lack of due diligence as alleged or at all.*

Part F

Violations of the PFUTP Regulations.

26. With regard to the violation of the PFUTP Regulations, following has been alleged in the SCN:

- a. In the FY 2016-17, Magnum had reversed the entire accumulated Interest Accrued which were due to six banks amounting to ₹ 111.56 crore and shown as income in the Profit & Loss Account for the year. As a result of this, the net profit and net-worth of the company for the FY 2016-17 were overstated to the extent of ₹ 111.56 crore and liability to banks was understated by ₹ 111.56 crore. Thus, the Noticees were alleged to have devised a fraudulent scheme by knowingly misrepresenting the truth and concealing the material fact and thereby disclosing the financial statements which does not provide true and fair view of Magnum's financial position.
- b. Magnum had significantly manipulated the price of the scrip by materially manipulating the financial results through abrupt change of accounting policy/ treatment of interest accrued in the last quarter of financial year 2016-17.
- c. Magnum had fraudulently inflated the net profit as well as the net-worth by ≈ ₹ 182 crores and understated the liabilities by ≈ ₹ 182 crores in its financial statements for the FY2016-17 by way of reversal of accumulated interest accrued, reversal of provision for doubtful debts and failing to recognize interest expense on loans in the books of accounts and continued to misrepresent its financials in subsequent years. Thus, it is alleged that Noticees have fraudulently manipulated publicly reported financial statements

of Magnum to the extent of approximately ₹ 181.97 crore in FY 2016-17, ₹ 54.29 crore in FY 2017-18 and ₹ 58.60 crore in FY 2018-19 and ₹ 62.91 crore in FY 2019-20 and public was misled about the financial health of Magnum. This act allegedly operated as a device/scheme/artifice to deceive and defraud the investors dealing in the equity shares of Magnum.

- d. The Noticees have manipulated the financial results thereby inflating the net profit for FY 2016-17 by ₹ 182 crores and had concealed the Qualified Audit Report (containing audit qualifications regarding wrong accounting treatments which contributed to inflated net profit) from the public. Thus, by reporting a 213% increase in profitability from FY2015-16 to FY2016-17 (i.e., from a net loss of ₹ 91 crore to a net profit of ₹ 103 crore) and by fraudulently concealing the audit qualifications, Magnum had allegedly induced the investors in securities market to trade in the scrip of Magnum and deceived them. This can be seen from the rise in average no. of shares traded per day from 3,890 shares during May 01 – 28, 2017 to 1,71,706 shares during May 29 to July 18, 2017. This had manipulatively and fraudulently influenced the share price with a continuous rise after May 29, 2017 up to July 14, 2017 from ₹ 3.35 to ₹ 23.85 and continuous fall in price thereafter upon re-submission of the results along with Qualified Audit Report to ₹ 10.07 by August 04, 2017 and to ₹ 5.95 by July 20, 2018. During this period, the scrip was continuously hitting the upper circuit filters as long as the information on audit qualifications was withheld and was often hitting lower circuit filters after disclosure of the Qualified Audit Report.
- e. Noticees have violated Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations read with Section 12A (a), (b), (c) of the SEBI Act.

Reply of the Noticees to Part F.

27. The Noticees have made following submissions in respect of the allegations of violation of the PFUTP Regulations:

- a. *It must be noted that PFUTP is an intent based regulation and a mere averment of PFUTP violation does not make out a charge qua fraud. In the present case, SEBI seeks to punish a*

management which has always done right by all its stakeholders. The intention of the promoters and directors (based on the available facts on the record) was very clear and the same had been proven correct in coming subsequent years. The promoters had not been in any case benefitted themselves either by selling or buying the stocks in the market at that point in time and therefore the allegation of fraud is totally misplaced and has been made perfunctorily in the SCN.

- b. The allegation of fraud is made against the Noticees perfunctorily and without any basis. The audit qualification and the accounting treatment were both disclosed and therefore the Noticees neither misrepresented the truth nor concealed any material fact, as alleged or at all. SEBI is put to strict proof to establish that the accounting treatment or the audit report were not disclosed. The PFUTP Regulations are intent based regulations. Fraud cannot merely be alleged in such a casual manner or else the entire meaning to that regulation is lost. The way the SCN has been framed would entail that every disclosure violation under the Securities Laws can be said to be fraudulent. Clearly that was not the intent of the legislature and the allegation of fraud in a case where everything is disclosed in an annual report is clearly unsustainable.*
- c. It must further be noted that the allegation regarding the price rise and price fall are totally irrelevant. Admittedly, none of the Noticees or any other related person or KMP ever traded in the scrip during the said period and therefore the said allegations are a distinction without any difference. It must be further noted that although an allegation has been made that there has been a price rise and thereafter a price fall, the same cannot and does not correspond with the disclosure of the said audit report. the said information was in the public domain and the alleged price rise or price fall cannot be attributed to any act of the Noticees. Further upon highlighting by BSE the Audit Report was immediately submitted. Above all the Annual Report had the entire audit report. In any event, neither the Noticees or their family members or any person connected to them have even been alleged to have traded in the said scrip.*

CONSIDERATION OF ISSUES AND FINDINGS:

28. Before considering the issues to be determined in the matter, it would be useful to summarise the facts for context. Magnum is a listed company which had defaulted on loans taken from six banks namely – Oriental Bank of Commerce, Punjab National Bank, Indian Overseas Bank, Allahabad Bank, Syndicate Bank and Vijaya Bank. Its dues to these banks were declared as Non-Performing Assets in the books of the said banks by FY 2013-14. Thereafter, Magnum unsuccessfully attempted Corporate Debt Restructuring arrangements with its lenders and the said process failed in March 2016. In the financial statements for the FY 2015-16, Magnum had accounted for interest payable on its loans by

provisioning for the same. It is also uncontroverted that as on March 31, 2017, Magnum's loans from 4 banks had been assigned to AARC, that Magnum was admittedly in no financial condition to pay interest on its loans and was also apprehensive that its lender banks may institute insolvency proceedings against it. By March 31, 2018, a Restructuring Agreement had been entered into with AARC regarding the loans assigned by 5 banks to AARC, conditional on compliance with a repayment schedule and issuance of the non-convertible debentures (hereinafter referred to as "**NCDs**"). As per Magnum's submissions, this Restructuring Agreement was further revised in July 2022.

29. The allegation in the SCN hinges on the fact that in the last quarter of the FY 2016-17 and as reflected in its financial statements for the quarter ending and FY ending March 31, 2017, Magnum reversed its accounting policy of provisioning for accumulated interest of ₹ 111.56 crores accrued on its loans taken from the abovementioned six banks, without any indication of change in or extinguishment of financial liability agreed to by the lending banks, or any explanation by Magnum in this regard. Magnum stopped such provisioning altogether with effect from the FY 2016-17, leading to failure to account for ₹ 52.45 crores of interest expense to all six banks in the FY 2016-17, and ₹ 4.31 crores (approx.) of interest expenses in respect of Vijaya Bank between the FY 2017-18 and 2019-20. Even in respect of the loans agreed to be restructured by AARC to which five banks other than Vijaya Bank had assigned Magnum's debts, Magnum understated its liability to AARC by ₹ 38.33 crores from the FY 2017-18 to 2019-20 due to non-recognition of the interest component payable on dues in terms of the restructuring agreement with AARC. Further, in the FY 2016-17, Magnum reversed provisioning for doubtful debts in respect of loans given by it which were due for repayment for more than 12 months, which led to inflated net profit by ₹ 17.96 crores in the FY 2016-17. Overall, in the FY 2016-17, Magnum is alleged to have overstated its net profit and net worth by ₹ 181.97 crores. Magnum also allegedly overstated its net profit by ₹ 42.64 crores in the FY 2017-18, and by ₹ 4.31 crores each year in the FY 2018-19 and 2019-20, while overstating its net worth by ₹ 54.29 crores in the FY 2017-18, ₹ 58.60 crores in the FY 2018-19 and ₹ 62.91 crores in the FY 2019-20. In the FY 2016-17, overstatement of net profits due to changed accounting treatment by Magnum was reflected as an

unprecedented profit of ₹ 103.16 crores, which set-off losses of ₹ 26.09 crores. Without such changed accounting treatment Magnum would have had to disclose losses of ₹ 78.81 crores as per the SCN.

30. Misstatement of financial results for the quarter ending and FY ending 2016-17 by Magnum was exacerbated by the alleged omission by Magnum to disclose the Independent Auditor's Report containing Qualified Opinion in respect of the said results, which mentioned some of these irregularities.
31. The alleged misrepresentation of financial statements by Magnum also closely correlated with increase in the price of its scrip from ₹ 3.35 on May 29, 2017 to ₹ 23.85 on July 14, 2017, as well as substantial increase in volumes traded, upon publication of results for the quarter ending and FY ending 2016-17. As per copy of BSE's e-mail dated July 10, 2017 to Magnum which was obtained from BSE and Noticee 1, BSE required Magnum to submit either Declaration (in case of Unmodified Opinion) or Statement of Impact of Audit Qualifications in case of Modified Opinion, and also advised Magnum to submit revised financial statements in terms of the format in Schedule III of the Companies Act, 2013. Magnum re-submitted its financial statements alongwith the complete Audit Report with audit qualifications and Director's Response to the Audit Qualifications on July 19, 2017. Two days before submission of revised results, from July 17, 2017, the scrip price of Magnum started falling - reaching ₹ 10.07 by August 4, 2017 - and continued to fall till July 2018. Further, even after the BSE e-mail specifically requiring Magnum to submit a Declaration or Statement on Impact of Audit Qualifications, the Company did not file its Statement on Impact of Audit Qualifications as mandated by the LODR Regulations.
32. Magnum is thus alleged to have devised and executed a fraudulent scheme of manipulating its financial statements which in turn manipulated the price of its securities between May 29, 2017 and July 19, 2017, in alleged violation of the provisions of SEBI Act and the PFUTP Regulations. Certain other contraventions are also alleged i.e. the limited review and audit of Magnum's financial results for the FY 2016-17 to 2019-20 was carried out and submitted to the exchanges by an auditor which was not peer reviewed and did not hold a certificate issued by

the Peer Review Board of ICAI, in contravention of the provisions of LODR Regulations. Various other incorrect disclosures by Magnum in financial statements for the FY 2017-18 to 2019-20 in contravention of the provisions of LODR Regulations have also been alleged.

33. I have carefully considered the allegations and the Noticees' response thereto. The issues raised in the present case require determination with regard to the provisions of the LODR Regulations and under the PFUTP Regulations.

Violations of the provisions of LODR Regulations:

34. The determination of violation of the provisions of LODR Regulations by Magnum turns on whether Magnum complied with the applicable accounting standards and ensured that material information regarding the affairs of the company was duly disclosed to shareholders and other investors in the financial statements of the company.

Compliance with accounting standards:

35. The relevant legal framework prescribing compliance with accounting standards and principles by a company and as applicable to Magnum in the present case is described as follows. Section 129 of the Companies Act, 2013 requires financial statements of a company to give a true and fair view of its state of affairs, comply with accounting standards notified under Section 133 and be in the form provided in Schedule III of the Companies Act. One of the facets of disclosure of the true and fair state of affairs of the company is compliance with accounting principles and standards in letter and spirit, in terms of Regulation 4(1), 4(2)(e)(i), 33(1)(a) and (c), Schedule V Part B Para. 2 of the LODR Regulations and Schedule III, Division I, Part I, General Instructions for Preparation of Balance Sheet, Point 6. C. (i), (iii), (vi) and (vii) of Schedule III of the Companies Act, 2013.

36. In terms of the SEBI Circular dated July 5, 2016 on '*Revised Formats for Financial Results and Implementation of Ind-AS by Listed Entities*', the accounting standards prescribed by the Central Government in the Companies

(Indian Accounting Standards) Rules, 2015 (hereinafter referred to as “**IndAS Rules**”) issued under Section 133 of the Companies Act, 2013 were applicable to Magnum with effect from accounting periods beginning on or after April 1, 2017. The Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as the “**AS Rules**”) issued by the Central Government under Section 210A of the Companies Act, 1956 were applicable to Magnum for the accounting periods up to March 31, 2017.

37. The format for disclosure of financial results is governed by Schedule III of the Companies Act, 2013. In terms of SEBI Circular dated November 30, 2015 on ‘*Formats for Publishing Financial Results*’, the classification/ disclosure of items in the financial results was required to be in accordance with the Schedule III of the Companies Act, 2013 or its equivalent formats in other statutes, as applicable. In terms of SEBI Circular dated July 5, 2016 as well, for the period ending on or after March 31, 2017, “*the formats for Unaudited/ Audited quarterly financial results i.e. Statement of Profit and Loss and the Unaudited/Audited Half-Yearly Balance Sheet to be submitted by the Listed Entities, with the stock exchanges, shall be as per the formats for Balance Sheet and Statement of Profit and Loss (excluding notes and detailed sub-classification) as prescribed in Schedule III to the Companies Act, 2013.*”

38. Magnum has submitted that it complied with the IndAS from the accounting period beginning on April 1, 2017 in terms of the IndAS Rules. The Company also stated in its Annual Reports that it has complied with the applicable Accounting Standards in the respective years.

39. In terms of AS 1, an entity is required to follow certain fundamental accounting assumptions in its accounting policies, including consistency, accrual of revenues and costs upon being earned or incurred and not as money received or paid, and prudence involving recognition of profits only when realised and provisioning for liabilities and losses even when the amount cannot be determined with certainty and represents only a best estimate. AS 4 specifies that contingent gains occurring after the Balance Sheet date should not be recognised in the financial statements unless the realisation of gain is virtually certain, as their recognition

may result in recognition of revenue which may never be realised. As per AS 5, items of income and expense from ordinary activities whose size, nature or incidence makes their disclosure relevant to explain the performance of the enterprise for the period should have nature and amount disclosed separately, and circumstances which may give rise to separate disclosure of items include “other reversals of provisions”. AS 5 does not define exceptional items, but defines “Extraordinary items” as *“income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly”*. Further, as per AS 5, *“The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed”*. Further, Para. 32 of AS 5 states that *“Any change in an accounting policy which has a material effect should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated”*. Additionally, AS 16 requires borrowing costs to be recognised as an expense in the period when they are incurred, and AS 20 defines financial liability. IndAS 1, IndAS 23, IndAS 32 are similar to AS 1 and 5, AS 16, AS20, while IndAS 109 specifically prescribes that an entity shall remove a financial liability from its balance sheet when, and only when, it is extinguished – i.e., when the obligation specified in the contract is discharged or cancelled or expires.

40. When AS 5 and IndAS 1 are read together, it is understood that when items of income or expense are material, an entity has to disclose its nature and amount separately. Materiality depends on the size, nature and incidence of the item and whether its omission will amount to misstatement and that disclosure is relevant to explaining the performance of the enterprise. “Other reversals of provisions” are specifically included in IndAS 1 as an example of exceptional items warranting separate disclosure. It is worth mentioning that even in the case of interim financial statements, AS 25 requires minimum explanatory notes regarding unusual items due to size, nature or incidence. Para. 16 of AS 25

requires notes to interim financial statements regarding the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence.

41. In the above context, I proceed to consider the allegations regarding Magnum's financial statements and its changed accounting policy for 2016-17.

Non-disclosure of details of exceptional items and disclosure of notional interest as Contingent Liability:

42. The LODR Regulations cast obligations on the listed entity to prepare and disclose information in the manner specified therein. These obligations on the listed entity are not only limited to "disclosure" of the financials but extend to "preparation" of the financial statement in the specified manner so as to give true and fair view of the financial position of the listed entity. Hence, SEBI is very well within its jurisdiction to examine the preparation of the financials in order to ascertain that true and fair view of the financial position of the listed entity is disclosed. Regulation 4(1) of the LODR Regulations mandates a listed entity to make disclosures and abide by its obligations as specified under the LODR Regulations. Regulation 4(1)(a) mandates a listed entity to prepare and disclose information in accordance with the applicable standards of accounting and financial disclosures and Regulation 4(2)(e)(i) of the LODR Regulations states that the listed entity shall prepare and disclose information in accordance with the prescribed standards of accounting, financial and non-financial disclosure. Further, Regulation 33(1) of the LODR Regulations mandates listed entities to prepare financial results on the basis of accrual accounting policy and prepare standalone/ consolidated financial results as per Generally Accepted Accounting Principles.

43. I note that despite their size and unusualness, Magnum did not disclose the nature or details of Exceptional Items amounting to ₹ 129.50 crores in its audited results for the quarter ending and FY ending March 31, 2017 filed with the exchanges on May 29, 2017 for the FY ending March 31, 2017, which turned a loss of ₹ 26.34 crores from ordinary activities after finance cost (but before

Exceptional Items), into a profit of ₹ 103.16 crores after accounting for Exceptional Items. Remarkably, Magnum was never reflected as a profitable company at any point before this. It is pertinent to highlight that between the Financial Years 2008-09 and 2015-16, Magnum made combined losses of ₹ 253.05 crores with not a single year of profits, while in respect of the FY 2016-17 itself Magnum disclosed profits of ₹ 103.15 crores, indicating that a conspicuous and material shift in performance of the company was being projected to investors and shareholders. It is also noteworthy that Note 1 to Magnum's financial results for 2016-17 explains the Extraordinary Items in the previous FY 2015-16 as "*profits derived from sale of non-core assets*", but fails to explain or give any break-up or details regarding ₹ 129.50 crores worth of Exceptional Items for the applicable FY 2016-17 which turned around a loss-making company for the first time since 2008-09, and reflected it as a Company which had made unprecedented profit of ₹ 103.15 crores. Therefore, I find that Magnum failed to separately disclose the nature or constituents of Exceptional Items in Audited Financial Results disclosed on May 29, 2017 and July 19, 2017.

44. In this regard, the Noticees have not denied that they did not detail the nature of Exceptional Items in the financial statements for the quarter ending and FY ending March 31, 2017 which were submitted to the exchanges on May 29, 2017 and July 19, 2017. The Noticees have claimed in their reply that reversal of provisioning for interest due on loans was shown separately in the Annual Report of September 2017, and reasons for the same were contained in the notes to accounts. However, I note that the Notes to the 'Audited Financial Statements' filed with the exchange on May 29, 2017 or even July 19, 2017 do not explain the constituents of "Exceptional items" or "Extraordinary items". It is only in the Annual Report that "Extraordinary Items" are detailed with its constituents. Even in the Annual Report, considering the significance of the sheer quantum of reversal and its impact on the balance sheet and Profit and Loss Account of Magnum, and that it was triggered on account of a change in accounting treatment for the first time in the FY 2016-17, there were no concrete reasons mentioned in the Directors' Report containing Directors' Response to Audit Report qualifications regarding the basis for the management view that its existing liabilities could be written-back to reflect profit for the first time where the

company had been making losses since 2008-09 and its net sales/ revenue figures had not risen substantially as compared to previous years. The Directors' Response mentioned that "*probability of payment of interest prior to assignment of debts seems remote*", without explaining how this justified a unilateral decision to write-off its interest dues to AARC or Vijaya Bank and reflect the same as income/revenues.

45. On a perusal of the Profit and Loss Account in the Annual Report for the FY 2016-17, it is seen that unlike the audited financial results published on May 29, 2017 and July 19, 2017, "Extraordinary Items" mentioned constituents of "Provision for Doubtful Debt written back" and "Provision for Notional Interest written back" for ₹ 17.96 crores and ₹ 111.56 crores respectively, which converted negative Profit Before Tax of ₹ 26.3 crores before the write-back of provisioning to a positive profit after tax of ₹ 103.15 crores. Notably, even in the Annual Report filed in September 2017, no further details have been provided by Magnum regarding the changed circumstances justifying the write-back or reversal of provisioning which translated into profits or income for Magnum when in the same situation the previous year, Magnum had provisioned therefor. In Note 10 to the financial statements in its Annual Report, Magnum itself has acknowledged that "*A Provision is recognized when the company has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which reliable estimate can be made... These are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. Contingent liabilities are not recognized in profit & loss account but are disclosed in Notes to the Accounts.*" However, contrary to its own stated policy, and contrary to GAAP and accounting standards, Magnum reversed all previous provisioning of interest and debtors' dues, and also stopped such provisioning from 2016-2017 without any basis or explanation.

46. I further note that for the first time, in para. (B) 1. in "Other Notes" under Note 27 to its accounts as detailed in its Annual Report, Magnum included notional interest dues of ₹ 138.07 crores related to the period between 2013-17 as "*Contingent liabilities not provided for*", and accorded a description of

“Banks/ARC#” as the *“Forum where Dispute is Pending”*. Magnum has also footnoted here that *“PNB, OBC, Allahabad Bank and IOB has assigned their debts to ARC and the possibility of payment of notional interest is remote as the company is in discussion with ARC to restructure the debt considering the current economic scenario.”* In doing so, Magnum placed notional interest duly accrued on loans assigned to AARC, under the Section of Contingent Liabilities with taxes and other liabilities whose incidence was disputed. However, it is evident that the amount of notional interest had accrued due to an admitted failure of Magnum to repay loans and no dispute was involved and efforts to work out an agreed mode of repayment were still underway. Thus, Magnum tried to attribute the nature of “dispute” to an existing obligation where the principal and interest payable were not disputed and were reflected in its own financial statements for the previous year.

47. The Noticees have contended that the items disclosed in Magnum’s financial statements as well as the changed accounting treatment of reversal of provisioning of interest and debtor’s dues was a reflection of the true state of affairs of the company. Further, the Noticees have claimed exercise of management discretion in deciding to reverse the interest and show the same as contingent liability and that a *“decision on the presentation of accounts has to be that of the management”*. However, as on March 31, 2017, I note that neither the debt assignment nor the discussion with AARC or with Vijaya Bank pointed towards any certainty that Magnum’s dues had been waived or were likely to be waived or that Magnum could have legitimately reversed provisioning for interest dues and debtor dues as required in terms of accounting standards.

48. The Noticee’s contention that the possibility of payment of dues to AARC and Vijaya Bank was recognised as Contingent Liability, is against the principles of accrual and prudence laid down in AS 1, which requires recognition of revenues and costs as they are incurred, and profits to not be anticipated but recognised only when realised. Additionally, as per IndAS 109, financial liability can only be removed from the balance sheet when and only when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires. I note that the Noticee company, as a borrower was in no position to unilaterally

alter the terms of formal agreement with the lender to extinguish its own liability vis-à-vis the lender, without express consent of the lender. Thus, the accounting treatment adopted by Magnum was not on the basis of fundamental accounting assumptions of 'Accrual' and 'Consistency' prescribed in Para. 10 b. and 10 c. of AS 1 pertaining to 'Disclosure of Accounting Policies', and Magnum did not consider the principle of prudence while selecting and applying its accounting policy as prescribed in Para. 17 a. of AS 1.

49. In this regard, the SCN has cited the opinion of ICAI's Expert Advisory Committee and MCA which states that reversal of interest payable and non-provision of interest payable on credit facilities granted by banks/ AARC to the company due to ongoing settlement process and due to the fact that interest income on non-performing assets is recognized only on cash basis (by lenders), the same is not in accordance with the applicable accounting standards. In respect of this allegation, the Noticees have contended that SEBI cannot rely on guidelines issued by ICAI. It also contended that SEBI had in its adjudication order in the case of Radha Madhav Corporation Ltd. (hereinafter referred to as "**RMCL**") exonerated a company for a similar treatment of interest on loans. In this regard, a perusal of SEBI's Adjudication Order dated April 23, 2019 in respect of six entities in the matter of RMCL shows that it held that an opinion obtained from the Expert Advisory Committee of ICAI by SEBI on the issue of reversal of interest payable and non-provision of interest payable on credit facilities granted by banks/ AARC to the company due to ongoing settlement process and due to the fact that interest income on non-performing assets are recognized only on cash basis (by lenders) being advisory in nature and fact and context specific, could not be solely relied on by SEBI in its adjudication.

50. However, the adjudication order in the matter of RMCL is distinguishable from the case of Magnum. In the Adjudication Order in the RMCL matter, it was noted that RMCL had actually responded to audit qualifications, had disseminated the impact of the audit qualification in the prescribed format, and regularly made disclosures about the reasons for reversal of interest and non-provision of interest from time to time in its financial statements of the respective financial years and made the investors well aware about these material facts. Further, the

reversal of provisioning in case of RMCL did not have any impact on its shares and there was no material to show that interest of investors was prejudiced by RMCL's accounting treatment.

51. Further, subsequent to the Adjudication Order in RMCL, the MCA has also given its view on this issue vide letter dated October 14, 2019 *“that the accounting treatment followed by the company regarding reversal of interest payable and non-provision of interest payable on credit facilities granted by State Bank of India/ AARC and Bank of Baroda to the company due to ongoing settlement process and due to the fact that interest income on non-performing assets are recognised only on cash basis (by lenders) is not in accordance with applicable accounting standards.”* Therefore, given that accounting standards are prescribed by the Central Government as recommended by the ICAI (in consultation with and after examination of the recommendations made by the National Financial Reporting Authority) as per Section 133 of the Companies Act, 2013, due credence and weightage must be accorded to the MCA's view dated October 14, 2019 regarding this issue.

52. Recently, the National Financial Reporting Authority (hereinafter referred to as **“NFRA”**) vide Circular dated October 28, 2022 on *“Non-accrual of interest on borrowings by the companies in violation of Indian accounting standards”*, which directly pertains to interpretation of accounting standards in the present case, has also affirmed the above position, stating that companies' accounting treatment of discontinuation of accrual/ recognition of interest expense on its bank borrowings, which had been reportedly classified as Non-Performing Asset (NPA) by the lender banks and for which the company was negotiating One Time Settlement with the banks, was in contravention of the provisions of applicable accounting standard, as these borrowings as well as the interest payable thereon continued to be the financial liabilities of the company and were required to be accounted for as amortized cost. The Circular explains that such discontinuation of interest expense recognition on bank borrowings solely based on the borrowing company's expectations of likely waiver/ concession by the lender banks in the payment of interest/principal without evidence of the legally enforceable contractual documents results in incorrect/ erroneous presentation of financial

performance and financial position of the borrowing company to its shareholders, investors, creditors and lenders.

53. In light of the MCA's opinion and the NFRA Circular dated October 28, 2022, the Company's contention that several listed companies follow the same accounting practice of writing-back interest due on loans classified as NPAs by banks is not persuasive, especially because the facts of the respective cases of the said companies are not before me for adjudication. Consequently, I find that Magnum's changed accounting treatment of failing to provision for interest due on its loans to six lender banks was not in accordance with accounting standards, and misrepresented its financials through inflated profits and net worth.
54. Magnum's argument that as per its management's view the possibility of repayment of interest was remote and that justified its reversal of provisioning for interest, is based on the flawed reasoning that since it was unable to service the interest due on loans to the banks, it could legitimately stop showing it as dues. However, in view of accounting standards and principles and their clear interpretation by the ICAI, MCA and NFRA in identical issues, I find that inability to service loans cannot justify reflection of the said dues as income or profits, without the certainty accorded by a formal waiver or extinguishment of liability by the creditors. Reflecting such dues which the company is unable to pay as income or profits would not reflect the true state of affairs of the company. Not only is the argument of Magnum counterintuitive, but renders otiose the essence of prudence, accrual and consistency underlying accounting standard stipulations in AS1 (Paras. 10 and 17), AS 4 (Para. 4), AS 5 (Paras. 12, 13 and 14), AS 16 (Para. 6), AS 20 (Para. 6) and IND AS 1, IND AS 23 (Clause 8), IND AS 32 (Clause 11), and IND AS 109 (Clause 3.3.1). Further, resolution of uncertainty in such a case rests with the lender, and Magnum was in no position to change accounting treatment of its dues based on its perception of likelihood of waiver by AARC. In this regard, the case of Girish Chandra Tiwari v. UCO Bank, vide Writ (C) No. 67132 of 2013 decided on September 09, 2014 may be noted where the Hon'ble Allahabad High Court held that *"The liability to make payment of interest by the borrower to bank arises strictly in accordance with the loan agreement. The liability to pay interest continues to subsist so long as the dues are not*

cleared by the borrower. The mere fact that a loan account has been declared as NPA would not absolve the borrower from its liability of payment of interest to the bank, unless the law forbids it.”

55. In this regard, I further note that the interest(s) due on loans availed by Magnum were financial liabilities of Magnum, as defined in AS 20, and were a contractual obligation. In terms of AS 1, they had already been incurred and had to be accounted for, and a best estimate needed to be accounted for the said known liability through a provision, as had been the case in previous financial years. In terms of AS 16, interest was a borrowing cost which had to be recognised as an expense in the period when the same was incurred. In terms of IndAS 109, Magnum could have removed such financial liability from its balance sheet when, and only when, it was extinguished – i.e. when the obligation specified in the contract was discharged or cancelled or expired. As on the date of disclosure of financial statements for 2016-17 on May 29, 2017, only an assignment of loans to AARC had taken place as evidenced by the agreements of 2015-2017 in Annexure 4 to the SCN. The said agreements of assignment had not impacted or reduced the existing liability of Magnum in respect of principal or interest components of the loans. The Restructuring Plan of March 31, 2018 entered into between AARC and Magnum regarding Magnum's loans from 5 banks assigned to AARC, restructured Magnum's dues by pegging Magnum's total liability at ₹ 304 crores including ₹ 171 crores of loan repayment over a period, and ₹ 133 crores in the form of debt converted into NCDs. Therefore, neither the assignment agreements between the banks and AARC nor the Restructuring Plan of March 31, 2018 (subsequently entered into between AARC and Magnum) can be said to justify Magnum's complete reversal of provisioning for interest from 2016-17.

56. Magnum's contention that in respect of results for FY 2016-17, its management had visibility regarding its inability to pay interest and regarding non-recovery of debt, and that in its view the only possibility was that the Company would be settling with its lenders, is not supported by the material on record. As on March 31, 2017, no Restructuring Agreement existed, and it was formalised only on March 31, 2018. Even the said Agreement mentioned a total financial liability of ₹

304 crores including issuance of NCDs, as compared to the loan principal of ₹ 265.67 crores, indicating that AARC never intended to waive off the interest component of the loan, but to recover it in a phased manner by issuance of NCDs. Further, it is noted that as per details of correspondence in Annexure 6 to the SCN with M/s. Aggarwal and Rampal, the Statutory Auditors of Magnum during the relevant period, the Auditor qualified its opinion in respect of estimate of interest for the year 2016-17, if any, because Magnum was not in a position to provide the auditor with requisite calculations and terms of assignment to AARC. Therefore, the Auditor submitted that it was not in a position to quantify or ascertain the impact of the same on the financial statements. In the Directors Report, in the paragraph on Directors Response to Audit Report in the Annual Report approved on September 20, 2017, Magnum has noted that the *“Balance of debtors and creditors are confirmed by the management”*, without providing any further details. Further, the Directors Report states that *“AARC in-principally agreed to restructure the debts”* and that *“Based on this, the probability of payment of interest prior to assignment of debts seems remote”*. I note that no material has been produced by the Company to show that as on March 31, 2017, AARC or Vijaya Bank had agreed to waive interest accrued on loans availed by Magnum. The Directors Report section in the Annual Report which responded to the audit qualifications indicates that even in September 2017, the management did not have a substantive response or clarification to give in respect of the Auditor’s qualification that the debtors’ and creditors’ balances are subject to confirmation and reconciliation, and that consequential impact, if any, on financial statements remains unascertained. Therefore, it is apparent from the material on record that the Company did not have any material in support of its decision to reverse and not continue to provision for interest due on loans availed from banks as on the date of submission of audited financial results for 2016-17 to the exchanges on May 29, 2017. Accordingly, contention of the Company that the management had a basis to conclude with near-certainty that AARC had in-principle agreed to restructure its loan dues or waive interest, cannot be accepted.

57. In terms of repayment schedule for debts acquired by AARC from 5 banks whose loans were restructured, annexed to AARC’s letter to Magnum dated July 20,

2022, a copy of which has been submitted by Magnum in post-hearing submissions dated December 28, 2022, such liability appears to have been modified to the extent of total instalments and extended repayment period specified therein, conditional to payments being made as per schedule by Magnum, though the liability cannot be said to be extinguished even as on date. The revised restructuring of outstanding dues of Magnum as agreed upon in the AARC letter dated July 20, 2022, can be revoked upon failure to make payment as per schedule, in which case any amount already paid will be adjusted towards total dues and entire amount outstanding. Thus, even as on date, the material on record does not indicate that AARC has unconditionally written-off the interest component of the outstanding amount in respect of loans from the 5 banks which assigned Magnum's dues to AARC.

58. Regarding the non-restructured loan taken from Vijaya Bank, the One-Time Settlement proposal which Magnum made to Vijaya Bank regarding the unstructured loan was under litigation before the Hon'ble Delhi High Court. A perusal of a copy of the Hon'ble Delhi High Court's order dated April 23, 2018 in the matter of W.P. 554/2017, Magnum Ventures Ltd. v. Vijaya Bank, shows that even as of April 2018, Vijaya Bank was not willing to consider Magnum's One-Time Settlement proposal as the writ petition pertaining to the issue of outstanding dues was *sub-judice*, and also that Magnum was apprehensive that Vijaya Bank may take recourse to the Insolvency and Bankruptcy Code, 2016. Therefore, the Company's contention that the non-restructured loans were close to settlement is not corroborated by the facts on record, and cannot be accepted.

59. It is pertinent to note that information regarding any One Time Settlement with the banks, or any agreement regarding the said restructuring involving waiver of interest which Magnum has claimed that the banks had agreed to with reasonable certainty in the last quarter of 2016-17, constituted deemed material information in terms of Part A to Schedule III of the LODR Regulations. I note that the Noticees have not submitted any evidence to show that anytime in the last quarter of 2016-17 they had made any disclosures of any such deemed material information to the stock exchange. Therefore, I cannot accept the Noticees'

contention that in the last quarter of FY 2016-17, there was any sudden development which justified reversal of provisioning and write-off of interest and debtors' dues by Magnum. Since there was no basis for Magnum's decision to write-back interest and debtors' dues, the absence of a detailed explanation for such deviation through Notes to Financial Statements or through a Statement on Impact of Audit Qualifications only corroborates that Magnum's change in accounting treatment was motivated only by a desire to portray a turnaround in the company's fortunes to ordinary investors, as dealt with subsequently in the allegations of violation of the PFUTP Regulations..

60. In respect of dues owed by debtors to Magnum to the tune of ₹ 17.96 crores which were outstanding for more than 12 months as on March 31, 2016, Magnum had provisioned them as doubtful debts only once in the financial statements of the FY 2015-16. However, it is alleged that despite ₹ 9.32 crores of these dues still remaining outstanding as on March 31, 2017, Magnum reversed the provisioning in financial statements for the FY 2016-17, and made no fresh provisioning for debtors whose dues of ₹ 11.25 crores were outstanding for more than 12 months as on March 31, 2017. In this regard, Magnum has submitted in its reply dated October 15, 2022 and post-hearing submissions dated December 28, 2022 that it had based this decision of reversal of debtor dues provisioning on management feedback obtained first-hand from each debtor, as per internal policy and reasonable estimates of the Company, and that year-wise recovery data shows that only ₹ 55,909 remained for recovery as on December 15, 2022. I find that a 'Modified Opinion' was given by the Auditor in this regard as well, and that no 'Statement on Impact of Audit Qualification' was filed by Magnum in respect of debtor's dues either. However, in the 'Directors Response to Audit Report' in the Annual Report, Magnum has clarified that it is *"following with the debtors for recovery of old dues and taking necessary steps for recovering the old dues amount. Further the Company has filed case u/s. 138 of Negotiable Instruments Act 1881 for debtor of ₹ 110.13 lacs and expected to recover soon."*

61. I also note that Magnum in its reply dated October 15, 2022 has claimed that debtors' dues were written-off as the possibility of recovery was weak as on March 31, 2017, and provisioning for debtor's dues was accordingly removed.

The Company has not explained how the conversion of dues owed to Magnum into income or net worth of Magnum despite non-recovery of the said dues was justified at the time when the stated management decision was taken. On the other hand, the Company has also claimed that it made efforts and was able to recover nearly all the debtor's dues by December 2022. This only serves to emphasise that as on March 31, 2017, Magnum had no reasonable basis to write-off provisioning for debtor's dues and include it as income translating into net worth or profit.

62. Accounting Standards and principles aim to ensure uniformity, comparability of financial statements, while ensuring adequate disclosure in respect of material items. The object of fair disclosure in financial statements is derived from a harmonious reading of Accounting Standards with Section 129 of the Companies Act, 2013 which specifically mandates that financial statements shall give a true and fair view of the state of affairs of the company. Numbers under various heads and items of financial statements have considerable potential to mislead when not read in the correct context. Explanations to accounts in the form of Notes to accounts or otherwise, reduce the chances of accounting figures being misinterpreted, by giving the right context to the investors. They also serve to reduce the information asymmetry between the management and investors with respect to awareness of the true state of affairs of the company.

63. While neither the Companies Act, 2013, nor the LODR Regulations specifically define 'true and fair view', the Hon'ble Supreme Court in *J. K. Industries Ltd. and Anr vs Union of India and Ors* [(2007) 13 SCC 673] explained 'true and fair view' in the following manner:-

"The annual financial statements should convey an overall fair view and should not give any misleading information or impression. All the relevant information should be disclosed in the balance-sheet and the P&L a/c in such a manner that the financial position and the working results are shown as they are. There should be neither an overstatement nor an understatement. Further, the information to be disclosed should be in consonance with the fundamental accounting assumptions and commonly accepted accounting policies."

64. Magnum has claimed compliance with Accounting Standards and has emphasised its discretion in operating its business and presenting its financials accordingly, arguing that in terms of Section 129 (5) of the Companies Act 2013, it has discretion to deviate from Accounting Standards if reason for deviation and financial effects of deviation are disclosed in the financial statements. While accepting the importance of management discretion in running the business and that neither auditor nor regulator should step into the shoes of the company in this regard, the objective of the Companies Act, 2013 and LODR Regulations provisions regarding presentation of true and fair view of state of affairs of a company through its financials, and the importance of information conveyed by financial statements for investor decisions to buy and sell shares, cannot be ignored. Management discretion in conduct of business and presentation of accounts cannot be exercised to render nugatory and otiose the specific legal requirements of Accounting Standards and principles prescribed in the AS Rules and the Ind-AS Rules read with provisions of Sections 129, 133 and Schedule III of the Companies Act, 2013. Further, with respect to the Noticees' contention that SEBI could not be permitted to substitute its wisdom for the wisdom of the management and transgressing into the jurisdiction of business, it is useful to note the decision of the Hon'ble Securities Appellate Tribunal in the matter of Oasis Securities Limited and Ors. v. SEBI, dated March 17, 2020, wherein SEBI's jurisdiction over listed companies' compliance with Accounting Standards was upheld.

65. Magnum has not denied that in the financial statements for the quarter ending and FY ending 2016-17 submitted by Magnum to the exchanges on May 29, 2017 of July 19, 2017, the changed accounting treatment was unexplained by way of any Notes or explanation to the financial statements. It is also uncontroverted that as on May 29, 2017, Magnum, did not submit its financial statements in accordance with Schedule III of the Companies Act, 2013. Further, while as per the Company's own submissions an Audit Report duly highlighting these concerns through a qualified opinion was provided to Magnum on May 29, 2017, only the covering page of the Report without the actual details of audit qualifications and concerns expressed by the auditor, was submitted to the exchanges on the said date. Consequently, no Statement on Impact of Audit

Qualifications mandated under the LODR Regulations was filed by Magnum alongwith the financial statements and the Audit Report, despite BSE vide its e-mail dated July 10, 2017 specifically requiring Magnum to submit a Declaration or Statement on Impact of Audit Qualifications. Magnum has not contested that details of terms of repayment, period and amount of default and rate of interest for long-term borrowings in terms of Schedule III of the Companies Act, 2013 were not provided by Magnum in Notes to Accounts of its financial statements in the Annual Reports for 2016-17 and 2019-20.

66. I note that in its reply, Magnum has made contradictory submissions stating that *“the Company deviated from the accounting standards and therefore there was an audit qualification which was appropriately answered”*, and on the other hand, that *“The management in its opinion felt that there is no deviation, the auditor felt that there was and therefore the qualification was given with quantification and the Company gave its comments on the said qualification”*. Magnum’s submissions in this regard are not borne out by the facts as discussed in preceding paragraphs.

Withholding material information:

67. Apart from accounting principles and standards, the issue of violation of the LODR Regulations needs to be appreciated from the point of view of non-disclosure of material information as well. I note that any claimed basis for reversal of provisioning in 2016-17 and exercise of management discretion in this regard constituted material information relevant to shareholders and investors’ understanding of the trends in performance of the Company, and their decisions to buy and sell shares of the Company. Detailed reasons for such reversal, and for basis of management certainty that lender banks would agree to its request to waive interest or that debtors who had failed to repay loans for more than 12 months would repay all their loans almost immediately, thus constituted material information which should have formed part of the financial statements filed in 2016-17. Failure to disclose detailed reasons on part of the Company constituted omission of material facts, which misled investors and contravened Regulations 4 (1), 4 (2) (e), 33 (2) (a), 33 (3)(i) and 48 of the LODR Regulations.

68. For the limited purpose of appreciating the nature of information about Magnum's financial performance as available in the public domain at the time of publication of financial results on May 29, 2017, it is useful to look at a few of the Annual Reports of Magnum preceding 2016-17. In the section on '*Emphasis of Matters*' in the Independent Auditor's Report in the Annual Report for 2014-15, the Auditor of Magnum mentioned that *"No provisions has been made against zero coupon Debentures issued by the Company to its lender in terms of the CDR package approved by the CDR EG on 24th December 2014 of ₹ 3412.00 lacs to be redeemed on 31.03.2026. Had a proportionate provision of ₹ 262.46 lacs for the year been made in the books, the Loss for the year would have been higher by that amount and the Accumulated Losses would have also been higher by the identical amount."* The Auditor also emphasised that *"Balances of Debtors & Creditors are subject to confirmation and reconciliation consequential effect (if any) on the account remained unascertained."* and that *"The company has shown Term Loans and Interest accrued on them as per there CDR package. However, CDR package as informed to us is yet to be implemented. In absence of the details of interest accrued etc. the consequential effect of the same remains unascertained"*. As per Para. (B) 16. in *"Other Notes"* in Annual Report for 2014-15, in terms of the approved CDR package at the time, the promoters had also signed and submitted documents to lenders for pledging their balance 30% shareholding. Further, banks had already in 2014-15 classified the restructured account in terms of CDR package as sub-standard. Subsequently, in 2015-16, Magnum provisioned for accrued interest on NPAs as seen in the following paragraph.

69. Para. viii. of Annexure A to the Auditor's Report in the Annual Report for 2015-16 mentioned that the Company had defaulted in repayment of loans and borrowings to a financial institution and bank, and that in February 2016 Magnum exited the CDR mechanism due to failure of approved restructuring package. Further, the Auditor stated that the Company had received notice from Oriental Bank of Commerce and Allahabad Bank that they had decided to assign Magnum's debts and underlying securities to eligible ARCs, and that *"these accounts were NPAs and quantum of amount is not possible because of*

company have not received any formal letter of debt with accrued interest upon these debts". As on March 31, 2016, under Note 27 to its Accounts, in sub-para. 18 of Para. (B) under "Other Notes", the Auditor mentioned that "Due to CDR Packages and as per RBI Guidelines, all the banks classified the account as "sub-standard". Hence the company make a provision for uncharged interest i.e. Interest after NPA date and included in Interest Accrued." [emphasis supplied]. Thus, the reasoning behind provisioning for uncharged interest as provided by Magnum was that bank loans were NPAs. The Audit Report for 2015-16 also contained the qualification that "balances of debtors & creditors are subject to confirmation and reconciliation consequential effect (if any) on the account remained unascertained". Further, in Emphasis of Matters, the Auditor mentioned in para. (c) that "After the exit from CDR, the stipulation of CDR packages stands null & void hence company cancel the Zero Coupon Bond of ₹ 34.12 Cr issued on 31.03.14 and reverse/cancel concessions/benefit of interest recorded in FY 13-14 and FY 14-15 as prior period items because of no provision made for differential interest in FY 13-14 and FY 14-15, and provision for the same have been account for because interest not paid by the company". In Directors' Response to the Audit Report, it is stated *inter alia* that "In February 16, all the banks approached CDR EG to exit the account from CDR and given their mandate for exit from CDR and CDR EG approved the Exit Proposal vide letter dated 22nd March 2016. After the exit from CDR, the stipulation of CDR packages stands null & void". The Directors' Response also mentioned that "Balance of debtors and creditors are confirmed by the management". As per Note 27, Para. (A) 10. of 'Significant Accounting Policies and Notes to Accounts', Magnum stated on "Provisions and Contingencies" that "A Provision is recognized when the company has a present legal or constructive obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which reliable estimate can be made...". Therefore, based on the same factual situation in the previous financial year preceding 2016-17, Magnum had provisioned for accrued uncharged interest after the NPA date.

70. The above context brings one to the impugned financial results of 2016-17 filed by Magnum on May 29, 2017 where substantial reversal of provisioning for

interest and doubtful debt was carried out for the first time, which in turn translated into unprecedented profits of ₹ 103.15 crores. As detailed earlier, Notes to financial statements filed by Magnum did not explain the “Exceptional Items” amounting to ₹ 129.50 crores in its audited results for the quarter ending and FY ending March 31, 2017 filed with the exchanges on May 29, 2017.

71. Further, I note that Audit Reports with Qualified Opinions and the Company’s explanation thereon in the form of Statement on Impact of Audit Qualifications or a declaration that Audit Report is with unmodified opinion, are required to form an integral part of the financial statements in terms of Regulations 33(3)(c) and 33(3)(d) of the LODR Regulations. The Annual Report is also required to contain audited financial statements with Statement on Impact of Audit Qualifications where applicable as per Regulation 34(2)(a) of the LODR Regulations. It was of critical importance that with the financial results for 2016-17, Magnum disclosed the complete Audit Report with qualified opinion, and its filing of a ‘Statement on Impact of Audit Qualifications’, in terms of Regulation 33(3)(d) of the LODR Regulations, so that shareholders and investors could appreciate the performance and apparent positive result of the Company in its correct context and get a true and fair view of the state of affairs of the Company. Concerns flagged by the statutory auditors in respect of the financial statements, and the management’s explanation thereon, were material to investors’ decision to buy or sell shares of the Company. It has already been established as uncontroverted that Magnum failed to disclose details of its long-term borrowings in terms of Paras. 6 C. (i), (iii), (vi) and (vii) in the General Instructions for preparation of Balance Sheet in Part I of Schedule III of the Companies Act, 2013. Therefore, Magnum failed to disclose material information pertaining to reasons for the sudden change in accounting treatment effective quarter ending March 2017 through Notes to Financial Statements, details of its long-term borrowings or by filing the mandatory Statement on Impact of Audit Qualifications regarding such change.

72. The significance of financial statements and their presentation to investors cannot be overemphasised. Since financial statements are material information under the LODR Regulations, and are also deemed to be price-sensitive information,

with the assumed potential to cause changes in price movement of the scrip upon publication, it follows that they are critical to investors' decision to buy or sell shares. Accounting principles prescribed under Section 133 of the Companies Act, 2013 read with the Companies (Accounting) Rules, 2006 or the Companies (Ind-AS) Rules, 2015, formats of presentation of financial statements in terms of Schedule III of the Companies Act, 2013 or SEBI Circulars dated July 5, 2016 and November 30, 2015 attempt to ensure transparency and comparability of financials of a company across a time period or with other companies. Further, they assist in presenting a true and fair view of the state of affairs of the company, in terms of Section 129 of the Companies Act, 2013 read with Schedule II of the LODR Regulations. Schedule III, Division II, General Instruction 7 of the Companies Act, 2013 also requires Financial Statements to disclose *“all ‘material’ items, i.e., the items if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size or nature of the item or a combination of both, to be judged in the particular circumstances.”* It is in this context that explanation of deviation from accounting norms needs to be seen.

73. In the above discussed conspectus, to emphasize upon the importance of true and fair disclosures, I find it relevant to allude to Nobel Laureate, George Akerlof's *'Theory of Lemons'*, which underscores the need for information symmetry and improvement in the quality of information available to buyers and sellers to eliminate inefficiencies due to indecisiveness arising from apprehensions about the quality and completeness of information available in the market. The objective of disclosure in a free and fair market is to assure end-users of the information regarding its quality with respect to the company it describes. Compliance of financial statements with accounting standards and principles, as well as completeness of disclosure, can be considered the equivalent of reducing "lemon problems" by providing an assurance of quality to investors.

74. A plain reading of Regulations 4, 33, 34 and Schedule V of the LODR Regulations along with Section 129, Section 133 and Schedule III of the

Companies Act, 2013 shows that financial statements of a company are supposed to represent its actual, true and fair state of affairs, and not hinge on speculation – positive or negative. The obligation to provide justification and explanation for significant changes in accounting policies and to treat liabilities in accordance with norms of prudence, accrual and consistency is meant to guard against speculation and prevent misrepresentation which has potential to cause irreversible damage to investors and a free and fair market, by goading them towards buying and selling decisions they may not have taken in the face of accurate and transparent disclosures.

75. In view of the above, I find that by failing to disclose details of its long term borrowings, of the basis for abrupt reversal of provisioning for interest and debt in the financial statements of the FY 2016-17, and by failing to account for liability regarding interest due to banks and from doubtful debtors, Magnum failed to comply with AS 1, AS 4, AS 5 and AS 16, IndAS 1, 23, 32 and 109 and Paras. 6 C. (i), (iii), (vi) and (vii) in the General Instructions for preparation of Balance Sheet in Part I of Schedule III of the Companies Act, 2013 read with SEBI Circular dated July 5, 2016, and the above-mentioned contraventions alongwith Magnum's failure to submit a complete Audit Report and Statement on Impact of Audit Qualifications during the relevant financial years, constituted a violation of Regulations 4(1), 4(2)(e), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of the LODR Regulations.

Published Limited Review or Audit Reports issued by auditor who did not hold valid Peer Review Certificate during the FY 2016-17 to FY 2019-20:

76. Apart from the non-disclosure of material information and contravention of accounting standards, it is also alleged that in violation of Regulation 33(1)(d) and 33(3)(c)(i) of the LODR Regulations, Magnum submitted limited review and audit reports for 2016-17 to 2019-20 given by a statutory auditor who did not hold a valid peer review certificate issued by the Peer Review Board of ICAI. In this regard, vide reply dated December 1, 2022, the Company has submitted that as per ICAI's Announcement of Peer Review Board dated November 10, 2022, in respect of Peer Review Certificates issued till April 16, 2015 without mention of

end date, the end date shall be December 31, 2022 and till this date the validity of such certificates shall be continued. From the copy of peer review certificate issued to statutory auditor as provided with the Noticees' reply, it is seen that the certificate was issued on February 10, 2011 and hence was valid till December 31, 2022 as per the abovementioned ICAI Announcement. Accordingly, I find that it cannot be said that M/s. Aggarwal and Rampal did not hold a valid peer review certificate issued by Peer Review Board of ICAI. In the light of the Noticee's submissions, violation of Regulation 33(1)(d) and 33(3)(c)(i) of the LODR Regulations is not established.

Wrong reporting of expenses and charges amounts for the FY 2018-19:

77. It is also alleged that in Note 23 of Annual Report for the FY the 2019-20 on page 88 in Year on Year comparison, Magnum wrongly reported expenses and charges amounts shown for the previous FY 2018-19 under categories of banquet and decoration expenses, legal and professional fees and rent, hire, storage charges, which were much less than the amount shown for those categories in the Annual Report of 2018-19. Therefore, Magnum allegedly violated Regulations 33(3)(d), 34(2)(a) and 34(3) of the LODR Regulations. In response, the Noticees have blamed the wrong reporting on typographical errors, and stated that the error was unintentional as the Profit and Loss account correctly reflected the numbers of the previous year. I find that in the previous year column in the Annual Report for the year 2019-20 against banquet and decoration expenses incurred in the FY 2018-19, Magnum reported expenses of ₹ 0.76 Lakh as against expenses of ₹ 148.12 Lakh disclosed in the Annual Report for the FY 2018-19. Likewise, the amount reported against legal and professional fees in previous year column in the Annual Report for the FY 2019-20 was ₹ 1.53 lakhs as against ₹ 1.55 crores, and against rent, hire, storage charges was ₹ 7.74 lakhs as against ₹ 1.63 crores. While the dissonance in reporting is substantial when considered in isolation, I find merit in the Noticees' submission that the figures on expenses in the Profit and Loss account for the relevant years have not been challenged. Besides, in the Annual Report for the FY 2019-20, as per Profit and Loss account the total expenses for the FY ending

2019-20 were ₹ 251.58 crores as opposed to higher total expenses disclosed in the Annual Report for FY ending 2018-19. Therefore, disclosure of reduction in expenses by a total of ₹ 4.56 crores in the Annual Report of 2019-20, for only a few items pertaining to the previous Financial Year which did not alter the relative sizes of total expenses in FY 2018-19 and 2019-20, does not appear to be material enough to have mislead investors. Accordingly, I am inclined to accept the Noticee's contention that the erroneous disclosures in this regard in the comparative figures for expenses in the Annual Report for 2019-20 were technical or venial in nature, and find that violation of the LODR Regulations in this regard is not established.

Violations of the provisions of PFUTP Regulations

78. The allegation regarding contravention of the PFUTP Regulations by Magnum is inextricably connected to a series of omissions by Magnum accompanying its changed accounting treatment of provisioning for interest and debtor's dues, and an attempt to conceal its true basis. The abrupt and unexplained change in accounting treatment and consequential overstated profits and net worth for the quarter ending and FY ending March 31, 2017 hid from ordinary investors the true and fair view of affairs of the company, lending the scrip of the Company to trades on the basis of misrepresentation and speculation encouraged by information asymmetry.

79. In this context, I take special note that Magnum admittedly failed to upload the complete Independent Audit Report containing details of modified opinion of its auditor referring to the reversal and non-recognition of interest and debtor's dues, etc., with the financial statements submitted to the exchanges on May 29, 2017. This violation is made more stark by Magnum's own submission in its reply that the matter of non-provisioning and reversal of interest and debtor's dues, etc. was duly discussed in the Board meeting where the audited financial statements were approved.

80. BSE noticed that Magnum's results which were submitted on May 29, 2017 contained no indication that they were accompanied by a modified opinion of the statutory auditor in its audit report. I note that as per the BSE e-mail dated July 10, 2017 cited by Magnum, the Company was required to submit a declaration (in case of unmodified opinion) or a Statement on Impact of Audit Qualifications (in case of modified opinion) in terms of SEBI Circular CIR/CFD/CMD/56/2016 dated May 27, 2016. Further, BSE had pointed out that the financial results submitted by Magnum were not as per Schedule III of the Companies Act, 2013, that the *"Number of column of the result should be as per SEBI Regulations. (i.e. last quarter/previous Quarter etc. should be part of result)"* and the company was advised to submit revised results accordingly. Magnum was also required to submit audited results for quarter as well as year ended March 2017 instead of the unaudited results for quarter ending March 2017 which it had submitted.

81. It was only when BSE detected the absence of modified opinion and also sought compliance by Magnum with Schedule III of the Companies Act, 2013 vide e-mail dated July 10, 2017, did Magnum upload the complete Audit Report with audit qualifications. Interestingly, this re-submission of financial statements for 2016-17 was only to BSE and not to NSE, despite the same omissions on both exchanges. Magnum has completely failed to provide any response regarding why it failed to file a Statement on Impact of Audit Qualifications even during re-submission of financial results and in the face of express advice by BSE regarding non-filing of Statement on Impact of Audit Qualifications in case of audit report with modified opinion. Further, it merits emphasis that instead of providing the Statement on Impact of Audit Qualification Magnum chose to casually convey incomplete information in its covering letter dated July 19, 2017 to the BSE that BSE's advice to Magnum had only been regarding submission of results in revised format as per Schedule III of the Companies Act, 2013 without any change in figures as in the old format. There is no mention in the covering letter regarding the missing Statement on Impact of Audit Qualifications, and needless to say, the actual submission of such Statement on Impact never took place. In the light of the foregoing, Magnum's complete and repeated failure to comply with the LODR Regulations and BSE's specific advice is evidence of deliberate concealment of material information from ordinary investors in an

attempt to pass off unexplained and unjustified change in accounting treatment as profits of the company.

82. The allegation in the SCN that Board resolutions and minutes approving the financial results for the quarter ending and FY ending 2016-17 were approved by the Audit Committee despite the concerns, *inter alia*, on accounting treatment and reversal of provisioning for interest and debtor dues being flagged by the statutory auditor, has not been responded to by the Noticees. Instead, Magnum has sought to take cover under the sole argument that the decisions were based on management discretion which is paramount and cannot be interfered with by the auditor, or the regulator. However, an auditor's concerns and qualifications are not expected to be taken lightly by the management of the Company. The LODR Regulations in Para. B. of Schedule IV accord due credence to qualifications expressed by the auditor in a modified opinion of financial results, requiring the company to disclose its cumulative impact on profit, net worth, assets, etc. while submitting the financial results, and even where the impact of the qualification is not quantifiable, to provide an estimate regarding the impact of the qualification or at least an explanation as to why the management is not providing such estimate. Therefore, while allowing management the discretion to carry on business in the manner deemed fit by it, the law requires that where an expert is unable to accept the contents of the results without qualification, the Company should address such concerns and explain their impact on financial statements presented to investors. It is also worth mentioning that a Statement on Impact of Audit Qualification is required to be filed in a specific format prescribed vide SEBI Circular dated May 27, 2016 which *inter alia* requires the listed company to disseminate the impact of audit qualifications to stock exchanges at the time of submitting annual audited financial results, and also requires management estimation of and views on impact of audit qualification.

83. The facts before me show that Magnum was well-aware of the concerns flagged by the auditor regarding the change in accounting treatment in respect of interest, debtor's dues, etc. and wilfully neglected to address auditor concerns in the financial statements published on May 29, 2017. The material on record shows that Magnum failed to respond to audit concerns in a timely and detailed manner,

did not upload Audit Report with audit qualifications on May 29, 2017, and entirely failed to file a '*Statement on Impact of Audit Qualifications*' in terms of the LODR Regulations despite being required to do so by the exchange.

84. The Noticee in its reply has submitted that the complete audit report was not uploaded due to an administrative error and "*the same was rectified when BSE pointed out the said mistake*" [emphasis supplied]. On the other hand, Magnum in its covering letter dated July 19, 2017 to the exchange has claimed that the re-submission of results was only to comply with the revised format requirements of Schedule III of the Companies Act, 2013, without any mention of the fact that complete audit report with modified opinion had been omitted earlier, and that Magnum had not filed any Statement on Impact of Audit Qualifications in terms of Regulation 33(3)(d) of the LODR Regulations. Therefore, the ostensible correction of financial results and submission of complete audit report with modified opinion to BSE on July 19, 2017 was once again unaccompanied by a Statement on Impact of Audit Qualifications and couched in terms which sought to render the re-submission insignificant despite the complete audit report for the FY 2016-17 coming into the public domain for the first time.

85. I note that the Noticee's self-contradictory submissions are an evident attempt to skirt their obligations, and are not convincing enough to discharge them from liability for concealing audit qualifications regarding misstatements in its financial results for the FY 2016-17.

86. The Noticees' reply in this regard hinges on a claimed completeness and adequacy of disclosures in the Annual Report which was approved in the Annual General Meeting on September 20, 2017. However, the allegations in the SCN regarding violation of the PFUTP Regulations pertain to disclosures made on May 29, 2017 which caused the price of the scrip of Magnum to rise exponentially till Magnum re-filed its financial results with Audit Report disclosing audit qualifications after being promoted by BSE's e-mail dated July 10, 2017. I note that the disclosure of inflated net profits and net worth based on an unexplained change in accounting treatment by Magnum was followed by rise in the price of

the scrip of Magnum from ₹ 3 to ₹ 23.85 between May 29, 2017 and July 14, 2017, as well as increase in traded volumes. Two days before submission of revised results by Magnum to BSE on July 19, 2017 with complete audit report containing modified opinion for the quarter ending and FY ending 2016-17, the price of the scrip of Magnum started falling. Despite the specific e-mail from BSE, a Statement on Impact of Audit Qualifications was never filed by Magnum.

87. It is also important to note that the first page of the Audit Report which was submitted by Magnum with its financial statements on May 29, 2017 and which mentioned that the quarterly and year to date financial results for the FY 2016-17 *“give a true and fair view of the net profit/ loss and other financial information....subject to comments /observations/ qualifications thereon in our Independent Audit Report”*, is missing from the Audit Report submitted by Magnum on July 19, 2017 after being prompted by the BSE e-mail dated July 13, 2017. Further, covering letter dated May 29, 2017 from Magnum to the exchanges submitting audited financial results for the quarter ending and FY ending 2016-17 does not mention a modified opinion of the auditor, but letter to the exchanges from Magnum dated July 19, 2017 in ostensible compliance with Regulation 52(3) of the LODR Regulations, specifically mentioned that the results are qualified by modified opinion of the statutory auditor, and enclosed Audit Report with Qualified Opinion, though once again without the Statement on Impact of Audit Qualifications. It is noteworthy that Regulation 52 (3) specifically requires a separate submission of ‘Statement on Impact of Audit Qualifications’ in case modified opinion on financial statements has been given by the statutory auditor. These facts indicate that Magnum was aware of the legal requirement to explain and clarify the basis of accounting treatment adopted by it in the FY 2016-17, which had a possibility of conveying an impression to investors which was unascertained by facts, but repeatedly failed to do so, despite being asked by the auditor and the exchange.

88. It has already been noted that Magnum had failed to explain its sudden change in accounting treatment of interest and debtors’ dues which reflected a loss as unprecedented profits of ₹ 103.15 crores. It cannot be the case that Magnum was alien to the concept of detailed itemisation of extraordinary and exceptional

items, and offering explanation in Notes to Financial Statements for material or significant figures in this regard. 'Extraordinary Items' appear to have contributed positively around ₹ 26.7 crores to reduction of loss of Magnum in the FY 2015-16. Notes to financial statements for the FY 2015-16 mention that extraordinary item includes the profit derived from sale of non-core asset i.e. plots by Magnum. In the FY 2016-17, 'Extraordinary Items' affected net profits negatively by ₹ 1 lakh only, but 'Exceptional Items' of ₹ 129.50 crores turned a loss of ₹ 263 crores into profit of ₹ 103.15 crores. The Notes to audited financial statements for the FY 2016-17 do not explain the exceptional item which was clearly material information relevant to investors' decision to purchase and sell shares of Magnum. In the FY 2017-18, 'Exceptional Items' contributed ₹ 47 lakhs to reduction of profit of ₹ 1.42 crores taking net profit to ₹ 95 lakhs before tax. As per Note 1 to Financial Statement for the FY 2017-18, *"Beginning April, 2017, the Company has for the First time adopted Ind AS with a transition date of April, 1 2016."* Therefore, the omission to detail and explain the extremely significant and material figures included in and disclosed as 'Exceptional Items' for the FY 2016-17 is too stark to be a *bonafide* omission.

89. Under the PFUTP Regulations, action or omission while dealing in securities, which induces others to deal in securities – including by misrepresentation, reckless representation, depriving the other person of informed consent, false statements without reasonable grounds for believing them to be true – constitutes fraud in terms of Regulation 2(1)(c). In terms of Regulation 2(1)(b)(ii) of the PFUTP Regulations, "dealing in securities" includes acts which are "knowingly designed to influence the decision of investors in securities". As per SEBI's Board Note indicating legislative intent behind insertion of Explanation to Regulation 4(1) – "diversion of funds or misstatements in disclosures are unfair trade practices and the element of dealing in securities or the element of inducing others to deal in securities need not be specifically proved in such cases". Therefore, misstatements in financial statements designed to influence investors were also recognised as an unfair trade practice in terms of Regulation 4 (1) of the PFUTP Regulations. The allegations of fraudulent and unfair trade practice levelled against the Noticees are being considered in this context.

90. The financial results disclosed on May 29, 2017 withheld any explanation regarding Magnum's changed accounting policy which conveniently reflected its losses as profits and positive earnings per share (EPS) of ₹ 27, completely opposed to the consistent losses and negative EPS of preceding years. As noted earlier, Note 1 to the financial results for the FY 2016-17 explained the extraordinary items in the previous FY 2015-16 as "*profits derived from sale of non-core assets*", but failed to explain or give any break-up or detail regarding ₹ 129.50 crores worth of 'Exceptional Items' for the applicable FY 2016-17, which turned around a loss-making company for the first time since 2012, and portrayed it as a Company which had made unprecedented profit of ₹ 103.15 crores.
91. The misstatements in Magnum's financial results for the FY 2016-17 as disclosed to the exchanges on May 29, 2017 along with various non-disclosures in violation of the LODR Regulations as established earlier, thus conveyed a positive impression of a vastly improved performance of the Company and induced investors to buy shares of Magnum. Magnum's shares were traded within a range between ₹ 1 to ₹ 6 for four years between April 1, 2013 and May 29, 2017. However, after the financial results for the FY ending 2016-17 showing profits of ₹ 103.15 crores due to changed accounting treatment of reversal of provisioning for interest and debtors' dues and without the necessary context of the qualified auditor's opinion or any management explanation thereon, were disclosed by Magnum to the exchanges on May 29, 2017, the scrip price of Magnum rose steadily to an opening price of ₹ 23.85 on July 14, 2017. From July 17, 2017, two days before Magnum re-submitted its financial results with the complete audit report containing modified opinion of the auditor regarding the write-back of interest and debtors' dues in the financial statements, the scrip price of Magnum started falling continuously, opening at ₹ 20.52 on July 17, 2017 (Monday) and continuing to fall thereafter. This downward trend continued once Magnum submitted its revised financial results with audit report containing modified opinion for the quarter ending and FY ending 2016-17 to BSE on July 19, 2017. The scrip price fell further to ₹ 10.07 by August 4, 2017 and by July 2018 the opening price fell to pre-May 29, 2017 levels of around ₹ 5-6.

92. As against the price movement in the scrip of Magnum, the BSE Sensex had risen moderately from ₹ 30944.38 to 31882.80 between May 29, 2017 and July 19, 2017. Subsequently, between July 20, 2017 and August 1, 2019 when Magnum's scrip price had begun falling, the Sensex rose from ₹ 32033.82 to ₹ 32579.80. Clearly, the more than 700% increase in price of the scrip of Magnum during May 29, 2017 to July 14, 2017, and its subsequent fall thereafter, had nothing to do with Magnum's own performance or general market trends nor have the Noticees argued as such.

93. In this regard, Magnum made a corporate announcement through a letter dated August 3, 2017 to NSE regarding variations in its share price, wherein it claimed that *"there is no specific announcement or information made available by the company which would have any impact or bearing on the price or volume of the shares traded"*. In stating this, Magnum once again tried to obfuscate the fact that financial results disclosed by Magnum on May 29, 2017 disclosing unprecedented profits of ₹ 103.15 crores for the first time, and without complete audit report containing modified opinion commenting on the accounting reasons behind the profit figures, constituted price-sensitive information which was likely to have had an impact on the price of the scrip. Further, even as on August 3, 2017, or thereafter, Magnum did not submit a Statement on Impact of Audit Qualifications to BSE which could also have served to clarify the significant market impact of the unprecedented financial results of Magnum.

94. The Noticees have contended in their reply that the PFUTP Regulations are intent based regulations and fraud cannot merely be alleged in such a casual manner or else the entire meaning to that regulation is lost. In this regard, I note that in Kanaiyalal Baldevbhai (supra), Hon'ble Supreme Court has held that:

"To attract the rigor of Regulations 3 and 4 of the 2003 Regulations, mens rea is not an indispensable requirement and the correct test is one of preponderance of probabilities. Merely because the operation of the aforesaid two provisions of the 2003 Regulations invite penal consequences on the defaulters, proof beyond reasonable doubt as held by this Court in Securities and Exchange Board of India Vs. Kishore R. Ajmera (supra) is not an indispensable requirement. The inferential conclusion from the proved and admitted facts, so long the same are

reasonable and can be legitimately arrived at on a consideration of the totality of the materials, would be permissible and legally justified”.

95. In this regard, and also connected to the element of inducement inherent to “fraud” under the PFUTP Regulations, it is relevant to mention the fraud-on-the-market principle, which has its origins in U.S. securities law and rests on the efficient market hypothesis. As per Black’s Law Dictionary (9th Ed.), the fraud-on-the-market theory postulates that an investor can presumptively establish reliance on a misstatement about a security’s value – without proving knowledge of the fraudulent statement – if the stock is purchased in an open and developed securities market. This doctrine recognises that the market price of an issuer’s stock reflects all available public information. The presumption is rebuttable. The U.S. Supreme Court applied this principle in the case of Basic, Inc. v. Levinson [485 U.S. 224 (1988)] to enable class action by, and reduce the unrealistic evidentiary burden of, plaintiffs looking to initiate action against the company for fraud due to material misrepresentations in the public domain – each plaintiff no longer had to prove specific reliance on the material misstatement to sustain his claim under antifraud provisions. Reliance is nothing but another way of looking at inducement. The U.S. Supreme Court held – *“An investor who buys or sells stock at the price set by the market does so in reliance on the integrity of that price. Because most publicly available information is reflected in market price, an investor’s reliance on any public material misrepresentations, therefore, may be presumed for purposes of a Rule 10b-5 action.”* It further held – *“The fraud on the market theory is based on the hypothesis that, in an open and developed securities market, the price of a company’s stock is determined by the available material information regarding the company and its business..... Misleading statements will therefore defraud purchasers of stock even if the purchasers do not directly rely on the misstatements”*. The efficient markets hypothesis is based on market responsiveness to unpredictable information, and explains the inducement of investors which is inherent in scrip price movement following disclosure of material information by the company. In an efficient market, material misstatement which moves the price of the scrip can be assumed to have induced buyers and sellers in the scrip. Thus, it is fair to conclude that, if a statement is material enough to impact price of a scrip in an efficient market, it

can be presumed to have induced buyers and sellers to trade in the scrip on the basis of the said material statement.

96. In the instant case as well, the misstatement regarding Magnum's reduced liabilities and expenses from a sudden and unexplained write-back of provisioning for interest dues and increased income from write-off of debtors' dues in the financial results of Magnum for the FY 2016-17, was material and price-sensitive in nature, and actually translated almost immediately into increased demand reflected in rising price and volumes traded in the scrip. Therefore, it can be safely presumed that all the buyers who contributed to increased demand for the shares of Magnum between May 29, 2017 and July 19, 2017, and all the sellers led to sell shares at the increased price commanded by the market in the scrip, relied on and were induced by Magnum's assertion in its financial statements published on May 29, 2017 that it had made unprecedented profits of ₹ 103.15 crores due to reduced liabilities and expenses and increased income, without simultaneous due submission of audit qualification or management explanation regarding the same.

97. In this regard, it is necessary to refer to an application of the *efficient market hypothesis* by the Hon'ble Supreme Court of India in the matter of N. Narayanan v. A.O., SEBI (Civil Appeal Nos. 4112-4113 of 2013 decided on April 26, 2013). In the said case pertaining to fraud on account of inflation of profit figures in the books of account as disclosed by the company, the Court held in para. 28 - *"Companies whose securities are traded on a public market, disclosure of information about the company is crucial for the accurate pricing of the companies' securities and also for the efficient operation of the market"*. Further, the Hon'ble Court held – *"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". Hon'ble Court also emphasised that "Records maintained by the company should show and explain the company's transactions, it should disclose with reasonable accuracy the financial position, at any time, and to enable the Directors to ensure that the balance sheet and profit and loss accounts will comply with the statutory expectations that accounts give a true and fair view".

98. Historical data on the profitability of Magnum in the years immediately preceding the FY 2015-17, as per audited balance sheets disclosed on the BSE website shows that Magnum had made a net loss of ₹ 91.60 crores in the FY 2015-16, net loss of ₹ 73.32 crores in the FY 2014-15, net loss of ₹ 18.86 crores in the FY 2013-14, net loss of ₹ 31 lakhs in the FY 2012-13, and a net loss of ₹ 20.36 crores in the FY 2011-12. Net sales/ Revenue from 'Operations' for Magnum gradually and slightly increased, from ₹ 196.08 crores in the FY 2011-12 to ₹ 212 crores in the FY 2016-17. It is noteworthy that the net sales/ revenue from operations in the FY 2016-17 had fallen compared to the net sales/ revenue from operations in the previous year. In other words, in the eye of the average investor, barring the fact that Magnum's bottom line was in the black for the first time in years, there was no other apparent reason for the Company's scrip to have risen exponentially from the trading day following disclosure of the May 29 2017. As per audited financial results disclosed on the BSE website on May 29, 2017, in the FY 2016-17, 'Exceptional Items' of ₹ 129.50 crores turned a loss of ₹ 26.3 crores into profit of ₹ 103.15 crores. The Notes to audited financial statements for the FY 2016-17 did not explain the exceptional items, which was clearly material information relevant to investors' decision to purchase and sell shares of Magnum. It cannot be gainsaid that the financial results for the quarter ending and FY ending 2016-17, without explanation or disclosure of basis for the 'Exceptional Items' including basis for reversed provisioning, and without uploading the 'Audit Qualifications' issued by their Statutory Auditor in this regard,

influenced investors to purchase shares of Magnum right after disclosure of the said results.

99. I note that Magnum's change in accounting treatment of interest and debtors' dues appears to be motivated to mislead because such change was despite compelling factors which justified *status quo* instead of a change. As already established, as on March 31, 2017 when Magnum claimed certainty of interest waiver and debt recovery to justify a write-off of its dues and stop provisioning for the said dues in deviation from accounting practice in previous financial years, which translated into unprecedented profits of ₹ 103.15 crores in the FY 2016-17, the evidence actually indicated that Magnum's lenders were nowhere close to agreeing to waive their right to interest on the loans availed by Magnum, and as per Magnum's own submissions, chances of recovery of debts were weak. Thus, Magnum attempted to show a positive picture of its financials which was a completely untrue reflection of the state of affairs of the Company as on March 31, 2017. Further, in Para. B. 17. in Note 27 in Significant Accounting Policies and Notes to Accounts in the Annual Report for 2016-17, Magnum stated that *"The Company received communication that Oriental bank of Commerce, Allahabad Bank, Punjab National Bank and Indian Overseas Bank assigned their dues to Ms/. Alchemist Assets Reconstruction Company Ltd. (AARC). The same however does not have any effect on the Balance Sheet or Profit and Loss Account of the company for the year ended on 31.03.2017 as the same requires substitution of the name of the ARC for the transferor banks."* Here, Magnum acknowledged that loan-assignment to AARC did not affect its balance sheet and Profit and Loss Accounts.

100. Magnum has also contended that a One Time Settlement was agreed upon with Vijaya Bank in September 2021 and as per the same, Magnum was required to make a payment of ₹ 27 crores by November 2022. Thus, Magnum has claimed that the liability was fully recognised and was settled at the same value. However, no documentary evidence has been produced in support of this contention. Even if Magnum has made payments in discharge of liability to Vijaya Bank, the fact that AARC and Vijaya Bank ultimately agreed to revise terms of repayment of

loans availed from them does not change the fact that as on May 29, 2017, Magnum had no reason to write-off its interest dues to Vijaya Bank.

101. In respect of reversal of provisioning for dues to the tune of ₹ 17.96 crores outstanding for more than 12 months and owed by debtors to Magnum as on March 31, 2017, I note that Magnum failed to file the complete Audit Report with the Qualified Opinion in this regard, and also failed to respond to the audit qualification with a Statement on Impact of Audit Qualification while submitting the audited financial results to the exchange on May 29, 2017. This too strongly indicates deliberate default and misrepresentation to ordinary investors regarding the same.
102. The absence of explanation or justification regarding accrued interest reversal, non-provisioning of interest and reversal of debtor provisioning, while introducing such reversal for the first time in the FY 2016-17, and the material and significant positive impact of such reversal on net profits and net worth of the Company in financial statements for the FY 2016-17, needs to be looked at in conjunction with the admitted fact that the complete Audit Report with modified opinion of the auditor was not submitted by Magnum to the exchange on May 29, 2017, and a Statement on Impact of Audit Qualifications was never submitted at all.
103. The various omissions by Magnum and the other Noticees while filing the financial statements for quarter ending and FY ending 2016-17 without complete audit report and the subsequent attempt to cover up these omissions while re-filing its financial results on July 19, 2017 with BSE as discussed earlier, indicate a deliberate attempt to hide and obfuscate the misrepresentation in Magnum's financial statements filed on May 29, 2017.
104. The law on accounting standards, presentation of financials and disclosures to investors seeks to ensure timely, transparent and complete disclosures and encourage information asymmetry and strengthen corporate governance. Further, adequate disclosures about financials in line with accounting standards ensure a fair market where investors' decisions to buy and sell shares can factor all relevant information.

105. In respect of the Noticees' contention that they had not in any case benefitted from the price-rise in the scrip of Magnum by selling or buying stocks in the market at that point in time, I note that inducement to deal in securities, which has been held to be an important ingredient of the definition of fraud as per the judgement of Hon'ble Supreme Court in SEBI v. Kanaiyalal Baldevbhai Patel and Ors. (2017) 15 SCC 1, is evident from the fact that the shares of Magnum were continuously hitting the upper circuit filters as long as the information on audit qualifications was withheld and was often hitting lower circuit filters after disclosure of the Qualified Audit Report. Further, I note that the benefits of increased scrip price based on positive perception of financials of a listed company are not always restricted to tangible or quantifiable benefits utilised by promoters, and may reflect in intangibles such as market perception, improved credit-worthiness and perceived potential for growth, which are undeniable in the present case and were factored by the market when the price of the scrip increased.

106. The dramatic increase in share price and traded volumes in the scrip between May 29, 2017 and July 14, 2017, corresponding to disclosure of Magnum's first profitable result since the FY 2011-12, without the sobering effect of disclosure of audit qualifications, or of explanation of 'Extraordinary Items' including the changed accounting treatment of reversal of provisioning for interest and debtors' dues, only indicates that the market and investors efficiently factored the said positive information regarding financial results disclosed on May 29, 2017 in their trade decisions, which translated into increased demand for the scrip and higher trade price during the said period.

107. Regulation 2(1)(c)(9) of the PFUTP Regulations incorporates the fraud-on-the-market principle and the efficient market hypothesis in the very definition of "fraud", to include – *"the act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price."* Therefore, there is no doubt that the

contravention of “fraud” under the PFUTP Regulations was intended to include fraudulent misstatements to investors.

108. In this regard, reference is also drawn to the Hon’ble Supreme Court’s consideration of the expression “unfair trade practice”. In the case of Kanaiyalal Baldevbhai (*supra*) the following observations were made:

Per N. V. Rammanna J:

“29. Although unfair trade practice has not been defined under the regulation, various other legislations in India have defined the concept of unfair trade practice in different contexts. A clear cut generalized definition of the ‘unfair trade practice’ may not be possible to be culled out from the aforesaid definitions. Broadly trade practice is unfair if the conduct undermines the ethical standards and good faith dealings between parties engaged in business transactions. It is to be noted that unfair trade practices are not subject to a single definition; rather it requires adjudication on case to case basis. Whether an act or practice is unfair is to be determined by all the facts and circumstances surrounding the transaction. In the context of this regulation a trade practice may be unfair, if the conduct undermines the good faith dealings involved in the transaction. Moreover the concept of ‘unfairness’ appears to be broader than and includes the concept of ‘deception’ or ‘fraud’.....”

Per Ranjan Gogoi J:

“.....Coupled with the above, is the fact, the said conduct can also be construed to be an act of unfair trade practice, which though not a defined expression, has to be understood comprehensively to include any act beyond a fair conduct of business including the business in sale and purchase of securities.....”

109. Magnum is alleged to have violated Regulations 3(b), (c) and (d) read with Sections 12A (a), (b), (c) of the SEBI Act. In this regard, I note that Regulations 3(b), (c) and (d) of the PFUTP Regulations, *inter alia*, prohibit employment of any manipulative/ deceptive device, scheme or artifice to defraud in connection with dealing in securities; engaging in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with dealing in securities. Magnum is alleged to have also violated Regulations 4 (1) and 4(2)(e), (f), (k) and (r) of PFUTP Regulations. I note that Regulation 4(2)(e) prohibits any act or omission amounting to manipulation of the price of security; Regulation 4(2)(f) prohibits publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not

true; Regulation 4(2)(k) prohibits disseminating information or advice through any media which the disseminator knows to be false or misleading and which is designed or likely to influence the decision of investors dealing in securities; and Regulation 4(2)(r) prohibits knowingly planting false or misleading news which may induce sale or purchase of securities. By publishing misleading financial statements of Magnum with inflated net worth and net profits for the FY 2016-17, by concealing audit qualifications in this regard, and by repeatedly failing to provide management explanation thereon in the form of '*Statement on Impact of Audit Qualifications*', on which basis investors were induced to buy and sell shares of Magnum, I find that Noticee No. 1 – Magnum violated Regulations 3(b), (c) and (d), Regulations 4(1) and 4(2)(e), (f), (k) and (r) of the PFUTP Regulations read with Sections 12A (a), (b), (c) of the SEBI Act.

ROLE OF NOTICEES:

110. The violations alleged against Noticees No. 2 to 10 are, *inter alia*, connected to the violations alleged against the Company, which have already been dealt above. I note that most of the contentions raised by the Noticees No. 2 to 10 are the same as raised by Noticee No. 1 which have been already been discussed. Therefore, those contentions of Noticees nos. 2 to 10 are not being dealt again separately. However, the specific contentions raised by the Noticees No. 2 to 10 in respect of the allegations levelled against them are being addressed in the following paras.

111. The details of designation, appointment and cessation of Noticees No. 2 to 10 in the Company are as follows:

Sr.No.	Name of the Noticee	Designation/ Role/ Nature of Noticee w.r.t. Magnum	Appointment date (as director/CO/CFO)	Cessation date, if any
1	Mr. Pardeep Kumar Jain	Managing Director & Promoter	17.07.1985	N.A.
2	Mr. Abhay Jain	Whole Time Director & Promoter	10.12.2009	N.A.
3	Mr. Parmod Kumar Jain	Director & Promoter	14.09.2016	23.01.2021
		Executive Director & Promoter	24.12.1986	13.09.2016

4	Mr. Shiv Pravesh Chaturvedi	Executive Director	01.04.2014	N.A.
5	Ms. Neha Gupta	Executive Director & Compliance Officer (CO)	14.01.2017	13.11.2018
6	Mr. Parveen Kumar Jain	Director, Promoter & Audit Committee Member	04.02.2006	N.A.
7	Mr. Rakesh Garg	Independent Director & Audit Committee Member	22.05.2009	12.02.2020
8	Mr. Subash Oswal	Independent Director & Audit Committee Member	26.06.2008	28.12.2021
9	Mr. Parv Jain	Chief Financial Officer (CFO)	13.09.2016	N.A.

112. Following is the Board meeting attendance record of the Noticees during the investigation period:

Sl. No.	Noticee No.	Name of the Director	No. of Board Meeting (FY 2016-17)	Attended Board Meeting (FY 2016-17)	No. of Board Meeting (FY 2017-18)	Attended Board Meeting (FY 2017-18)	No. of Board Meeting (FY 2018-19)	Attended Board Meeting (FY 2018-19)	No. of Board Meeting (FY 2019-20)	Attended Board Meeting (FY 2019-20)
1	3	Mr. Abhay Jain	7	7	12	12	10	10	7	7
2	2	Mr. Pardeep Kumar Jain	7	7	12	12	10	10	7	7
3	4	Mr. Parmod Kumar Jain	7	7	12	12	10	10	7	7
4	7	Mr. Praveen Kumar Jain	7	1	12	1	10	3	7	2
5	9	Mr. Subash Oswal	7	7	12	12	10	10	7	7
6	8	Mr. Rakesh Garg	7	7	12	12	10	10	7	6
7	5	Mr. Shiv Pravesh Chaturvedi	7	7	12	12	10	10	7	6
8	6	Ms. Neha Gupta	1	1	12	12	6	6	-	-

113. Under Regulation 4(2)(f) of the LODR Regulations, the board of directors are responsible for several aspects of corporate governance. Also, the directors of listed entities have higher responsibility since they are responsible for making important choices on behalf of the company that have an impact on investors and have access to inside information such as the company's financial situation, annual accounts, etc. As a result, it is expected that they use their authority in a fair manner and in the best interests of the stakeholders of the listed entity. The company acts through its board of directors, manager, secretary or other officers who are responsible for all the acts of omission and commission by the company.

It is the duty and responsibility of the board of directors, manager, secretary or other officers to ensure that proper systems and controls are in place for financial reporting and to monitor the efficacy of such systems and controls.

114. To ascertain the liability of the director, manager, secretary or other officer associated with the obligations cast on the listed entity, reference is drawn to Section 27(2) of the SEBI Act, which states that where a contravention under the SEBI Act has been committed by a company and it is proved that the contravention has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly. In this backdrop, the role of Noticees No. 2 to 10, are specifically dealt with hereunder.

Role of Noticee No. 2 – Mr. Pardeep Kumar Jain, Managing Director:

115. The following is noted in the SCN in respect of Mr. Pradeep Kumar Jain:

- a. *Mr. Pardeep Jain was Managing Director (Promoter) and member of the board during the entire examination period.*
- b. *Mr. Pardeep Jain was the Managing Director of Magnum during the period of preparation and publishing of the audited results for the quarter and year ended March 31, 2017 and the Annual Report for FY 2016-17, when the company had primarily deviated from the applicable and notified Accounting Standards relating to accounting for financial liability, borrowing cost, etc. and significantly manipulated the market price of the scrip.*
- c. *As per annual report for FY 2016-17 and FY 2017-18, he had attended all the 10 Board Meetings in the year 2017 including the Board meeting held on May 29, 2017 wherein the audited financial results for quarter and year ended on 31st March 2017 (which was found to be fraudulently manipulated) was considered and approved, in spite of various audit qualifications in this regard. Mr. Pardeep Jain was part of the discussion and approval process of the financial result where the net profit was inflated. Hence, he is responsible for the alleged manipulation in books of accounts.*
- d. *In the instant matter, during the entire examination period, Mr. Pardeep Jain was signatory to:*
 - i. *CFO & CEO Certification in the annual reports.*
 - ii. *Annual Financial Statements, Significant Accounting policies & notes to accounts.*
 - iii. *Directors' Report in Annual Reports.*

- iv. *Report on Corporate Governance in Annual Reports.*
- e. *Mr. Pardeep Jain, as Managing Director of the company, had signed the compliance certificates for all the financial years during the Examination Period. He has certified in the annual reports of the company that the financial statements present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.*

116. I note that Mr. Pardeep Jain being the Managing Director, was also a KMP and an officer in default in the company as per Sections 2(51) and 2(60), respectively of the Companies Act, 2013. Managing Director, as defined in Section 2(54) of the Companies Act, 2013, means a director who, by virtue of the articles of a company or an agreement with the company or a resolution passed in its general meeting, or by its Board of Directors, is entrusted with substantial powers of management of the affairs of the company and includes a director occupying the position of managing director, by whatever name called. I note that the hierarchy in a Corporate Structure is designed in such a way that adequate checks and balances are available to ensure proper preparation and true and fair reporting of its financial position to the public and a Managing Director is a key person for such a hierarchy to work properly in the interest of the company and its shareholders. Regulation 33(2)(b) of the LODR Regulations stipulates that *"the financial results submitted to the stock exchange shall be signed by the chairperson or managing director, or a whole time director or in the absence of all of them; it shall be signed by any other director of the listed entity who is duly authorized by the board of directors to sign the financial results."* Further, under Regulation 17(8) of the LODR Regulations, the CEO and the CFO shall provide the compliance certificate to the board of directors. It is also noted that under Regulation 33(2)(a) of the LODR Regulations, it is the duty of the CEO and CFO of the listed entity to certify that the published 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 while placing the financial results. I find that there was no person designated as CEO during the Investigation Period. In the absence of any designated CEO, the principal roles and responsibilities lay with the Managing Director, i.e. Noticee No. 2. Considering the non-compliances alleged with respect to the applicable and notified Accounting Standards and the fact that published financial statements of

Magnum were found to be misrepresented and manipulative and do not present a true and fair view of the Company's affairs, as found in the aforesaid paras, the said certification by Mr. Pardeep Jain under Regulation 17(8) of LODR Regulations to the Board of Directors and in the Annual Report of Magnum are found to be untrue and fraudulent in nature. In view of the same, I find that Noticee No. 2 failed in his duty as a managing director, and is responsible for the accounting irregularities in the books of accounts of Magnum which misled investors and caused the scrip of Magnum to rise on publication of misleading positive results.

117. I further note that in addition to his responsibility as an executive member of the board of directors under Regulation 4(2)(f) of the LODR Regulations, managing director is responsible for managing day-to-day affairs and business of the company and he was vested with the said power under the Companies Act, 2013. This entails a high level of accountability and knowledge of the overall functioning and financial reporting of the Company. Thus, I find that the violation by the Company was committed with the consent or connivance of, or is attributable to the neglect on part of the Noticee No. 2. In view thereof, I find that Noticee No. 2, as a member of the board of directors and as Managing Director, has failed to comply with Regulation 4(2)(f) of the LODR Regulations. I also find that being the Managing Director, Noticee No. 2 was part of the approval process and was instrumental to the artifice of manipulation of books of accounts, inflation of net profit and concealment of the audit qualifications amounting to manipulation of price of the shares of Magnum, as discussed and found in the preceding paragraphs.

118. In view of the aforesaid, I find Noticee No. 2 – Mr. Pradeep Jain has violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 17(8) read with 33(2)(a), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of LODR Regulations, read with Section 27(2) of SEBI Act and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.

Role of Noticee No. 3 – Mr. Abhay Jain, Whole-time Director:

119. The following is noted in the SCN in respect of Mr. Abhay Jain:

- a. *Mr. Abhay Jain was Whole-time Director (Promoter) and member of the board during the entire examination period. Being Whole-time Director ('WTD'), he was occupying a significant position and recognized as a KMP and an officer in default for any violation of the provisions of the Companies Act as per Sections 2(51) and 2(60) respectively of the Companies Act, 2013. Mr. Abhay Jain was the WTD of Magnum during the period of preparation and publishing of the audited results for the quarter and year ended March 31, 2017 and the Annual Report for FY 2016-17, when the company had primarily deviated from the applicable and notified Accounting Standards relating to accounting for financial liability, borrowing cost, etc. and significantly manipulated the market price of the scrip.*
- b. *As per Annual Reports for FY 2016-17 and FY 2017-18, he had attended all the 10 Board Meetings during the year 2017 including the Board meeting held on May 29, 2017 wherein the audited financial results for quarter and year ended on 31st March 2017 (which was found to be fraudulently manipulated) was considered and approved, in spite of various audit qualifications in this regard. It is also observed that he is nephew of the Managing Director, a Non-Independent Director and one of the Audit Committee Member of Magnum. Mr. Abhay Jain was part of the discussion and approval process of the financial result where the net profit was inflated. Hence, he is responsible for the alleged manipulation in books of accounts.*
- c. *During the entire examination period, Mr. Abhay Jain was signatory to -*
 - i. *Audited financial results for Quarter and year ended on 31st March 2017, which was fraudulently manipulated.*
 - ii. *Annual Financial Statements, Significant Accounting policies & notes to accounts.*
 - iii. *Directors' Report in Annual Report.*

120. I note that the Whole-time Director (hereinafter referred to as "**WTD**"), as defined in Section 2(94) of the Companies Act, 2013, includes a director in the whole-time employment of the company. The hierarchy in a Corporate Structure is designed in such a way that adequate checks and balances are available to ensure proper preparation and fair reporting of its financial position to the public and a WTD is a key person for such a hierarchy to work properly in the interest of the company and its shareholders. I note that Regulation 33(2)(b) of the LODR Regulations stipulates that "*the financial results submitted to the stock exchange shall be signed by the chairperson or managing director, or a whole time director*". I note that during the entire Investigation Period, Noticee No. 3 was

signatory to – (a) the audited financial results for the quarter and year ended on 31st March 2017, which was fraudulently manipulated; (b) Annual Financial Statements, Significant Accounting policies and notes to accounts; and (c) Directors' Report in Annual Report. I further note that in addition to his responsibility as an executive member of the board of directors under Regulation 4(2)(f) of the LODR Regulations, the WTD is responsible for administrative functions and financial reporting of the Company and assumes a high level of accountability and knowledge of the overall functioning of the Company. Thus, I find that the violation committed by Magnum was with the consent or connivance of, or is attributable to the neglect on the part of Noticee No. 3.

121. In view of the above, I find that Noticee No. 3, as member of the board of directors and as WTD, has failed to comply with regulation 4(2)(f) of the LODR Regulations and is responsible for all the acts of omission and commission by Magnum in this connection. Further, being the WTD, I find that Noticee No. 3 was part of the approval process and was instrumental to the artifice of manipulation of books of accounts, inflation of net profit and concealment of audit qualifications amounting to manipulation of price of the shares of Magnum.

122. Thus, I find Noticee No. 3 has violated regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of LODR Regulations, read with section 27(2) of SEBI Act and regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.

Role of Noticee No. 4 and 5 – Mr. Parmod Kumar Jain (Non-independent director and Promoter) and Mr. Shiv Pravesh Chaturvedi (Executive Director):

123. The following is noted in the SCN in respect of Mr. Parmod Kumar Jain and Mr. Shiv Pravesh Chaturvedi:

- a. *It is noted that Mr. Chaturvedi being executive director and Mr. Parmod Jain being non-independent director of Magnum were holding significant role in the company and instrumental in the business operations and decision making process of the company. Mr.*

Parmod Jain is one of the promoters of the company and brother of Mr. Pardeep Jain, the Managing Director and Mr. Parveen Jain, Audit Committee Member.

- b. Mr. Parmod Jain and Mr. Chaturvedi were non-independent directors of Magnum during the period of preparation and publishing of the audited results for the quarter and year ended March 31, 2017 and the Annual Report for FY 2016-17.*
- c. As per Annual Reports for FY 2016-17 and FY 2017-18, both Mr. Parmod Jain and Mr. Chaturvedi had attended all the 10 Board meetings during the year 2017. As per the Minutes of Board meeting held on May 29, 2017, both of them were present in the meeting wherein the audited financial results for quarter and year ended on 31st March 2017 (which was found to be fraudulently manipulated) was considered and approved.*

124. I note that Noticees No. 4 and 5 have not filed specific reply as to their roles as a non-independent/ promoter or executive director in the management of the Company. Noticees No. 4 and 5 were non-independent directors when Magnum deviated from the applicable and notified Accounting Standards relating to accounting for financial liability, borrowing cost, etc., when audited financial results for quarter and year ended on 31st March 2017 (which was found to be fraudulently manipulated) was considered and approved, in spite of various audit qualifications in this regard, which significantly manipulated the market price of the scrip during May-July 2017 and when the Annual Report for FY 2016-17 was prepared and published. Noticees No. 4 and 5 were observed to have attended all the 10 Board meetings during the year 2017 and as per the Minutes of Board meeting held on May 29, 2017, both of them were present in the meeting. Noticees No. 4 and 5 were observed to be part of the discussion and approval process of the financial results where the net profit was inflated. Hence, I find that they are responsible for the manipulation in books of accounts of Magnum.

125. In view of the aforesaid, I find that Noticees No. 4 and 5 have failed to discharge their duties under Regulation 4(2)(f) of the LODR Regulations. I further find that the violation by the Company was committed with the consent or connivance of, or is attributable to the neglect on the part of the Noticees No. 4 and 5 and they are responsible for all the acts of omission and commission by Magnum in this connection. Further, being non-independent directors, Noticees no. 4 and 5 were part of the approval process and were instrumental to the artifice of manipulation

of books of accounts, inflation of net profit and concealment of audit qualifications amounting to manipulation of price of the scrip.

126. In view of the aforesaid, I find that Noticees No. 4 and 5 have violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of LODR Regulations, read with Section 27(2) of SEBI Act and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b), (c) of the SEBI Act.

Role of Noticee No. 6 – Ms. Neha Gupta (Executive Director and Company Secretary/ Compliance Officer):

127. The following is noted in the SCN in respect of Ms. Neha Gupta:

- a. Ms. Neha Gupta was the Executive Director cum Company Secretary and Compliance Officer of Magnum during the period of preparation and publishing of the audited results for the quarter and year ended March 31, 2017 and the Annual Report for FY 2016-17. She had also acted as the Secretary to the Audit Committee. Being Company Secretary and Compliance Officer of the company, she was occupying a significant position and recognized as a KMP as per Sections 2(51) of the Companies Act, 2013.
- b. Ms. Neha Gupta was Executive Director cum Compliance Officer of Magnum during the period of preparation and publishing of the audited results for the quarter and year ended March 31, 2017 and the Annual Report for FY 2016-17.
- c. As per Annual Reports for FY 2016-17 and FY 2017-18, she had attended all the applicable Board Meetings during the year 2017 including the Board meeting held on May 29, 2017 wherein the audited financial results for quarter and year ended on 31st March 2017 (which was found to be fraudulently manipulated) was considered and approved, in spite of various audit qualifications in this regard. She was part of the discussion and approval process of the financial result where the net profit was inflated. Hence, she is responsible for the alleged manipulation in books of accounts.
- d. In the instant matter, Ms. Neha Gupta was signatory to -
 - i) Letter to BSE and NSE dated May 29, 2017 for filing audited financial results for quarter and year ended on 31st March 2017 after concealing the Qualified Audit Report.
 - ii) Letter to BSE dated July 19, 2017 for re-submission of audited financial results for quarter and year ended on 31st March 2017 along with Qualified Audit Report.
 - iii) Letter to NSE dated August 03, 2017 making incorrect announcement w.r.t. the reason for sudden fluctuations in the share price, which is found to be untrue.

- iv) *Annual Financial Statements, Significant Accounting policies and notes to accounts for FY 2016-17.*

128. I note that Noticee No. 6, vide reply dated October 20, 2022 submitted the following:

- a. *As regards the delay in upload of Audit Report (March 3, 2017) along with the results published on May 29, 2017, I humbly submit that the results along with the Audit Report was submitted.*
- b. *Upon receiving an email from BSE on July 13, 2017, the documents in another format were submitted on July 19, 2017 i.e. within 4 working days of the email from BSE.*
- c. *The submission within such a short time clearly substantiates that the error, if any, was of a technical nature and there was no malafide intention to defraud anyone by uploading incorrect of partial documents and therefore the charge of having violated PFUTP regulations does not hold good. Further, the documents for subsequent year were uploaded to the satisfaction of the Exchange which shows that I have otherwise been diligent in my duties.*

129. Noticee No. 6 was Executive Director cum Company Secretary and Compliance Officer of Magnum when the audited results for the quarter and year ended March 31, 2017 and the Annual Report for the FY 2016-17 were prepared and published. Further, I note from the Annual Reports for the FY 2016-17 and FY 2017-18 that Noticee No. 6 was observed to be attending all the relevant Board Meetings during the year 2017 including the Board meeting held on May 29, 2017, wherein the audited financial results for quarter and year ended on March 31, 2017, was considered and approved in spite of various audit qualifications in this regard. It is noted from the Minute Book of the Audit Committee held on May 29, 2017 that Noticee No. 6 was also observed to be part of the discussion and approval process of the financial results. She was also observed to be signatory to the letters sent to BSE and NSE in the year 2017 and Annual Financial Statements, Significant Accounting policies and notes to accounts for the FY 2016-17.

130. The contention of the Noticee No. 6 is that there was an error in submission of requisite documents to BSE, which was technical in nature and there was no malafide intention to defraud anyone. In this regard, I note that as an executive member of the board of directors as stipulated under Regulation 4(2)(f) of LODR

Regulations, Noticee No. 6 was accountable for several aspects of corporate governance and was expected to use her authority honestly and in the best interests of the stakeholders of the listed entity. Further, Noticee No. 6, being the Company Secretary and Compliance Officer of Magnum, was *inter alia* responsible under Regulation 6(2) of LODR Regulations for – (a) ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit; (b) co-ordination with and reporting to the Board, recognised stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in manner as specified from time to time; and (c) ensuring that the correct procedures have been followed that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity under the LODR regulations. It is worthy of note that the fraud perpetrated on ordinary investors in the market of the scrip of Magnum between May 29, 2017 and July 19, 2017 was enabled by glaring procedural lapses with serious ramifications. Such lapses including submission of incomplete audit report, non-filing of Statement on Impact of Audit Qualifications, non-acknowledgement of missing Statement on Impact in subsequent letter enclosing revised filing of results with the BSE, and an attempt to casually treat the misstatements and concealment of material information as changes in format of results, by Magnum have been detailed earlier while determining the violation of the PFUTP Regulations by Magnum. These procedural irregularities when considered together enabled Magnum to present a falsely positive picture of Magnum's performance to investors, causing Magnum's scrip to rise on the back of false information, thus perpetrating fraud on the market. Noticee No. 6, as a Compliance Officer, was the signatory to the submission of financial results with BSE and NSE for the quarter and year ended March 31, 2017, wherein the Qualified Audit Report, as discussed in the aforesaid paras, was fraudulently concealed in violation of Regulation 33(3)(c)(ii) of the LODR Regulations. Thus, Noticee No. 6, as an executive member of the board of directors and the Compliance Officer of Magnum, has failed to comply with Regulations 4(2)(f) and 6(2) of the LODR Regulations.

131. I find that being an Executive Director cum Compliance Officer, Noticee No. 6 was signatory to the filings with stock exchanges, part of the compliance and

approval process and was instrumental to the artifice of manipulation of books of accounts, inflation of net profit and concealment of audit qualifications amounting to manipulation of price of the scrip, as discussed in detail in the aforesaid paras. Therefore, it does not lie with Noticee 6 to claim that the failure of Magnum to make relevant applicable disclosures under the LODR Regulations and the resultant violation of the PFUTP Regulations was not attributable to any neglect on her part. Accordingly, I find that the above-mentioned violations by Magnum were committed with the consent of Noticee No. 6 and is attributable to neglect on her part.

132. In view of the aforesaid, I find that Noticee No. 6 has violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 6(2), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of the LODR Regulations, and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act, read with Section 27(2) of SEBI Act.

Role of Noticee No. 7, 8 and 9 – Mr. Parveen Kumar Jain, Mr. Rakesh Garg and Mr. Subash Oswal (Directors and Audit Committee Members):

133. The following is noted in the SCN in respect of Mr. Parveen Kumar Jain, Mr. Rakesh Garg and Mr. Subash Oswal:

- a. *The members of the Audit Committee of Magnum during the period of preparation and publishing of the audited results for the quarter and year ended March 31, 2017 and the Annual Report for FY 2016-17 were:*
 - i) *Mr. Parveen Jain (Audit Committee Member from Jan 2017 to July 2018 and Promoter Director since Feb 2006);*
 - ii) *Mr. Rakesh Garg (Audit Committee member during Apr 2015 to Feb 2020 and Independent Director from May 2009 to Feb 2020) and*
 - iii) *Mr. Subash Oswal (Audit Committee member from Jan 2016 to Dec 2021 and Independent Director from June 2008 to Dec 2021).*
- b. *As per Annual Reports for FY 2016-17 and FY 2017-18, both Mr. Rakesh Garg and Mr. Subash Oswal had attended all the 10 Board meetings and all the 7 Audit Committee meetings during the year 2017 including the Board meeting and Audit Committee meeting held on May 29, 2017 wherein the audited financial results for quarter and year ended on 31st*

March 2017 was considered and approved, in spite of various audit qualifications in this regard.

- c. *As per Annual Reports for FY 2016-17 and FY 2017-18, Mr. Parveen Jain had attended two board meetings and two audit committee meetings, out of ten board meetings and six audit committee meetings, during the year 2017. As per the Shareholding pattern in BSE website, it is noted that Mr. Parveen Jain is holding 44.28% shares of Magnum, 70% of which is pledged. Further, it is observed that Mr. Parv Jain, son of Mr. Parveen Jain, has been CFO of the company since September 13, 2016 till date. In view of these facts, it is observed that he plays significant role in the functioning, financial reporting and decision making process of Magnum. Further, it is understood from the submissions of the company that Mr. Parveen Jain had explained and misled the management that all banks had stopped charging interest on loans and reversed the accumulated interest after classifying the account as NPA. Hence, he is responsible for the alleged manipulation in books of accounts.*
- d. *In the instant case, it is noted that despite the significant jump in profitability from a net loss of ₹ 91 crore in FY 2015-16 to a net profit of ₹ 103 core in FY 2016-17 and the issues raised / highlighted by statutory auditor by way of a qualified opinion in its audit report for FY 2016-17 and other observations in Independent Auditor's Reports and Annual Secretarial Compliance Reports, the Audit Committee failed to ensure compliance with the applicable Accounting Standards and failed to ensure publishing of financial statements with true and fair view of the company's affairs.*

134. I note that in a listed company, the Audit Committee is expected to play a vital role as far as ensuring compliance with existing accounting standards, applicable laws and regulations are concerned. It is noted from the tenure of their directorship in Magnum that all the three directors have long term association with Magnum. I note that Noticee No. 8 was a member of Audit committee during April 2015 to February 2020 and an Independent Director from May 2009 to February 2020, and Noticee No. 9 was a member of Audit committee during January 2016 to December 2021 and an Independent Director from June 2008 to December 2021. Noticees No. 8 and 9 have made following further submissions:

- a. *I was independent director and a member of the Audit Committee of the Company at the relevant time. Being Independent Director, I largely relied on documents and/ or material placed before them while participating in meetings of the Board of Directors of the Company. I was not involved in the day-to-day management of the Company, and was only a part of its Board meetings. The accounting treatment was deliberated upon and even the audit qualifications were discussed, which in my view were correct and the Company has highlighted several instances of similar accounting treatment.*

- b. *One core allegation of the SCN is delay in upload of audit report, which recorded qualifications was to be done with the results. It is humbly submitted that the uploading and other procedural activities are taken care by the staff members who handle day to day affairs and the same cannot be attributed to Independent Directors or members of Audit Committee. I understand that the CS has submitted that there was a technical error in uploading the documents and the same cannot be attributed to me.*
- c. *Further, it is not in dispute that the Audit Report was disclosed on July 19, 2017 based on the email from BSE on July 13, 2017 within 4 days and there was no board or audit committee meeting between this period and the same documents that were perused by us for publishing on May 29, 2017 were reported on July 19, 2017 as apparently there was a technical error on the part of the staff members while uploading the documents in May 29, 2017. At the cost of repetition, it is submitted that such a technical failure on the part of the staff members of the Company cannot be attributed to me.*
- d. *Assuming but not accepting that the technical failure resulted in some price impact, the same cannot be attributable to me as the team who does the uploading of documents was under an obligation to attach the proper set of documents and not the independent directors/ members of audit committee like me.*
- e. *In any case the full audit report and financials were published in the Annual Report, which clearly shows that there was absolutely no intention to conceal facts or deceive the audience or investors as alleged or at all.*

135. I note that both Noticees No. 8 and 9 were observed to have attended all the ten Board meetings and all the seven Audit Committee meetings during the year 2017, including the Board meeting and Audit Committee meeting held on May 29, 2017 wherein the audited financial results for quarter and year ended on March 31, 2017 was considered and approved, in spite of various audit qualifications in this regard. The submission of the Noticees No. 8 and 9 that they were Independent Directors and were only part of the Board meetings and were not involved in the day-to-day management of the Company is not acceptable since it is noted from the Minute Book of the Audit Committee meetings dated April 26, 2017, May 29, 2017 and August 21, 2017 that Noticee No. 8 was 'member' and Noticee No. 9 was 'chairman' of the Audit Committee. For instance, the Minute Book of the Audit Committee meeting dated May 29, 2017 specifically stated that the chairman and members of the Audit Committee have reviewed in detail the results for the quarter and year ended on March 31, 2017 and have 'recommended' the same to the directors for approval. It further stated that the Audited Financial Results for the quarter and year ended on March 31, 2017

were approved and that after thorough discussion members took note that the Company has adequate internal financial control system and internal audit functions. Thus, I find Noticees No. 8 and 9 to be part of the discussion and approval process of the financial result where the net profit was inflated thereby making them responsible for manipulating the books and accounts of the Company. An Audit Committee by requirement of law in Regulation 18 of the LODR Regulations requires at least two thirds of its members to be independent directors to ensure objective assessment and disclosure of financials of the company. The Audit Committee discharges an important function by reviewing financial statements, and the minutes of its meetings form important information placed before and considered by the Board of Directors of the company while taking its decisions.

136. I note that Noticee No. 7 was a member of Audit Committee during January 2017 to July 2020 and a Promoter Director since February 2006. Further, I note that Noticee No. 7 had attended two Board meetings and two Audit Committee meetings, out of ten Board meetings and seven Audit Committee meetings (except for the meeting dated January 14, 2017 when the Audit Committee was reconstituted and he was made a member of the committee) during the year 2017. He was observed to be holding 44.28% shares of Magnum, 70% of which are pledged. In view of these facts, I find that Noticee No. 7 has also played a significant role in the functioning, financial reporting and decision making process of Magnum.

137. The role of the Audit Committee is defined as per clauses A (1), (4), (5) under Part C of Schedule II read with Regulation 18(3) of the LODR Regulations. Accordingly, the role of the audit committee and the information to be reviewed by the audit committee shall be as specified in Part C of Schedule II. The Audit Committee is required to exercise oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible. Despite the significant jump in profitability from a net loss of ₹ 91 crores in the FY 2015-16 to a net profit of ₹ 103.15 core in the FY 2016-17 and the issues raised/ highlighted by statutory auditor by way of a qualified opinion in its audit report for the FY 2016-17 and

other observations in Independent Auditor's Reports and Annual Secretarial Compliance Reports, I find that the Audit Committee failed to offer an explanation, ensure compliance with the applicable Accounting Standards and to provide a true and fair view of the company's affairs. Thus, members of the Audit Committee are also responsible for publishing of untrue and manipulated financial statements.

138. In addition to their failure in discharging their responsibilities as a member of the board of directors under Regulation 4(2)(f) of the LODR Regulations, Noticees No. 7, 8 and 9, being the members of the Audit Committee of Magnum, have failed to discharge their duties as required under clauses A (1), (4), (5) under Part C of Schedule II read with Regulation 18(3) of the LODR Regulations. Therefore, I find that the violation by Magnum was committed with the consent or connivance of, or is attributable to the neglect on the part of the Noticees No. 7, 8 and 9 and they are responsible for all the acts of omission and commission by Magnum, as discussed in the aforesaid paras, in this connection.

139. Thus, being directors and members of the Audit Committee, Noticees No. 7, 8 and 9 were part of the financial reporting and approval process and were instrumental to the artifice of manipulation of books of accounts, inflation of net profit and concealment of audit qualifications amounting to manipulation of price of the shares of Magnum, as discussed in detail earlier.

140. In view of the aforesaid, I find that Noticees No. 7, 8 and 9 have violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 18(3) read with clauses A (1), (4), (5) under Part C of Schedule II, 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of LODR Regulations, read with Section 27(2) of SEBI Act and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.

Role of Noticee No. 10 – Mr. Parv Jain (Chief Financial Officer):

141. The following is noted in the SCN in respect of Mr. Parv Jain:

- a. *Mr. Parv Jain (Son of Mr. Parveen Jain, Promoter Director and Audit Committee member) is Chief Financial Officer ('CFO') of the company throughout the period since September 2016 till date. Thus, he was a KMP in the company during the examination period by virtue of his designation as the CFO as per section 2(51) of the Companies Act 2013.*
- b. *Mr. Parv Jain was Chief Financial Officer of Magnum during the period of preparation and publishing of the audited results for the quarter and year ended March 31, 2017 and the Annual Report for FY 2016-17.*
- c. *In the instant matter, for the entire examination period, Mr. Parv Jain was signatory to:*
 - i) *CFO and CEO Certification in the annual reports.*
 - ii) *Annual Financial Statements, Significant Accounting policies and notes to accounts.*
- d. *Mr. Parv Jain, as CFO of the company, had signed the compliance certificate for all the financial years during the Examination Period.*

142. I note that Noticee No. 10 was the Chief Financial Officer of Magnum when the audited results for the quarter and year ended March 31, 2017 and the Annual Report for the FY 2016-17 were prepared and published. During that period Magnum was found to have deviated from the applicable and notified Accounting Standards relating to accounting for financial liability, borrowing cost, etc., withheld material information in its financial statements for FY 2016-17 regarding changed accounting treatment, and significantly manipulated the market price of the shares, as discussed in detail in the aforesaid paras. Regulation 17(8) of the LODR Regulations, specifies that the CEO and CFO shall provide the compliance certificate to the board of directors and Regulation 33(2)(a) of the LODR Regulations specifies that it is the duty of the CEO and CFO of the listed entity to certify that the published 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 while placing the financial results. I note that Noticee No. 10, as CFO of Magnum, had signed the compliance certificate for all the financial years during the Investigation Period. He has certified in the annual reports of the Company that the financial statements present a true and fair view of Magnum's affairs and are in compliance with existing accounting standards, applicable laws and regulations. Considering the non-compliances alleged with respect to the applicable and notified Accounting Standards and the fact that published financial statements of the company were found to be misrepresented and manipulative and did not

present a true and fair view of the Magnum's affairs, as discussed in the earlier paragraphs, I find the certification by Noticee No. 10 under Regulation 17(8) of the LODR Regulations to the Board of Directors and in the Annual Report of Magnum to be untrue. In view of the same, I find that Noticee no. 10 has failed in his duty as CFO and is responsible for the accounting irregularities in the books of accounts of Magnum thereby violating Regulation 17(8) read with 33(2)(a) of the LODR Regulations.

143. I also find that the violation by Magnum was committed with the consent or connivance of, and is attributable to the neglect on the part of the Noticee No. 10 and he is responsible for all the acts of omission and commission by Magnum in this connection. I further find that Noticee no. 10, being CFO, was part of the accounting and financial reporting process and was instrumental to the artifice of manipulation of books of accounts, inflation of net profit and concealment of audit qualifications amounting to manipulation of price of the shares of Magnum.

144. In view of the aforesaid, I find Noticee No. 10 to be in violation of Regulations 4(1), 4(2)(e), 17(8) read with 33(2)(a), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of the LODR Regulations, read with Section 27(2) of SEBI Act and regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.

145. In view of the findings in the aforesaid paras, I find that it is a fit case to issue directions under Sections 11(1), 11(4) and 11B (1) of the SEBI Act, 1992 on all the Noticees.

146. I note that all the Noticees have also been called upon to show cause as to why penalty should not be imposed on them under Section 11(4A) and 11B(2) read with Sections 15HA and 15HB of the SEBI Act for the violations of provisions of SEBI Act, LODR Regulations and PFUTP Regulations as alleged in the SCN.

147. In the preceding paragraphs, it has been found that:

- a. Noticee No. 1 has violated Regulations 4(1), 4(2)(e), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2), 34(3) and 48 of the LODR Regulations and Regulations 3(b), 3(c), 3(d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations read with Section 12A(a), (b) and (c) of SEBI Act.
- b. Noticee No. 2 has violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 17(8) read with 33(2)(a), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of LODR Regulations, read with Section 27(2) of SEBI Act and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k), and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.
- c. Noticees No. 3, 4 and 5 have violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of LODR Regulations, read with Section 27(2) of SEBI Act and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.
- d. Noticee No. 6 has violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 6(2), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of the LODR Regulations, read with Section 27(2) of SEBI Act and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.
- e. Noticees No. 7, 8 and 9 have violated Regulations 4(1), 4(2)(e), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(3), 18(3) read with clauses A (1), (4), (5) under Part C of Schedule II, 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of LODR Regulations, read with Section 27(2) of SEBI Act and Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.
- f. Noticee No. 10 has violated Regulations 4(1), 4(2)(e), 17(8) read with 33(2)(a), 33(1)(a) and (c), 33(3)(c)(ii), 33(3)(d), 33(3)(i), 34(2)(a), 34(3) and 48 of the LODR Regulations, read with Section 27(2) of SEBI Act and

Regulations 3(b), (c) and (d), 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations read with Sections 12A (a), (b) and (c) of the SEBI Act.

148. I note that violation of provisions of PFUTP Regulations as found to have been committed by the Noticees renders them liable for imposition of monetary penalty under Section 15HA of SEBI Act. Violation of provisions of the LODR Regulations, as found to have been committed by the Noticees renders them liable for imposition of monetary penalty under Section 15HB of SEBI Act. I note that for imposition of penalty under the aforesaid provisions of SEBI Act, 1992, Section 15J of the SEBI Act, 1992 provides as follows:

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

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

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- (b) the amount of loss caused to an investor or group of investors as a result of the default;*
- (c) the repetitive nature of the default.*

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

149. I observe that the SCN does not specify the amount of disproportionate gain or unfair advantage realized by the Noticees as a result of the aforementioned violations. In fact, no such assessment is possible in facts of the present case. In the light of the preceding elaboration of fraud-on-the-market, it is practically impossible to quantify the loss caused to investors who acted on the basis of the misrepresentation of financial statements.

150. In the above mentioned paras, it has been found that Magnum had misrepresented its financials. Such acts by a listed entity impair the operation of market forces of demand and supply of securities based and encourage information asymmetry, thus adversely affecting the rights of the investors and causing harm to the securities market. Disclosures are the foundation of the

securities market. The irreversibility of the damage caused due to misrepresentation and non-disclosures underscores the preventive role of compliance with the LODR Regulations and Companies Act provisions regarding timely and adequate disclosure of Company financials in a transparent manner. The integrity of the securities market is compromised when a listed company presents false financial information that is made available to the general public. Further, as discussed in detail in the preceding paragraphs, I find that the role of Noticees No. 2 to 10 in the fraudulent misrepresentation of financials as directors and CFO of the Company, has been established. As a result, in view of the aforesaid findings of violation of the LODR Regulations and PFUTP Regulations, I find that it is a fit case to impose monetary penalty on all the Noticees.

DIRECTIONS AND MONETARY PENALTIES:

151. I take note of certain mitigating factors which ameliorate the violations committed by the Company and its Directors i.e. Noticees 2-10. I note that involvement of the Company or its officials in actively partaking of any benefits accrued to the Company due to misrepresentation has not been established. Therefore, having regard to the facts and circumstances of this case, I hereby issue the following directions in exercise of the powers conferred upon me under Section 11(1), 11(4), 11(4A), and 11B of the SEBI Act read with Section 19 of SEBI Act and impose penalties as described hereunder:

- i) The Noticee No. 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10 are restrained from accessing the securities market and further prohibited from buying, selling or dealing in securities, either directly or indirectly, in any manner whatsoever, for a period of one year from the date of this Order.
- ii) The Noticee No. 1 is hereby directed to file Statements on Impact of Audit Qualifications in the prescribed format, for the entire period between FY 2016-17 to 2022-23, with the stock exchanges, within two weeks from today.

152. Penalties are hereby imposed on the Noticees, as specified hereunder:

S.No.	Name of Noticees	Provisions under which penalty imposed	Penalty Amount (In Rupees)
1	M/s Magnum Ventures Limited	Section 15HA of the SEBI Act, 1992.	₹ 10,00,000/- (Rupees Ten Lakhs Only)
		Section 15HB of the SEBI Act, 1992	₹ 2,00,000/- (Rupees Two Lakhs Only)
2	Mr. Pardeep Kumar Jain	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
3	Mr. Abhay Jain	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
4	Mr. Parmod Kumar Jain	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
5	Mr. Shiv Pravesh Chaturvedi	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
6	Ms. Neha Gupta	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
7	Mr. Parveen Kumar Jain	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
8	Mr. Rakesh Garg	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
9	Mr. Subash Oswal	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)
10	Mr. Parv Jain	Section 15HA of the SEBI Act, 1992.	₹ 5,00,000/- (Rupees Five Lakh Only)
		Section 15HB of the SEBI Act, 1992	₹ 1,00,000/- (Rupees One Lakh Only)

153. The Noticees shall remit/ pay the said amount of penalties within 45 days from the date of coming into force of this order. The Noticees shall remit/ pay the said amount of penalties through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT -> Orders -> Orders of EDs/CGMs -> PAY NOW. In case of any difficulties in online payment of penalties, the said Noticees may contact the support at portalhelp@sebi.gov.in.

154. The obligation of the Noticees, restrained/ prohibited by this Order, in respect of settlement of securities, if any, purchased or sold in the cash segment of the recognized stock exchange(s), as existing on the date of coming into force of this Order, are allowed to be discharged irrespective of the restraint/ prohibition imposed by this Order. Further, all open positions, if any, of the Noticees, restrained/prohibited in the present Order, in the F&O segment of the recognised stock exchange(s), are permitted to be squared off, irrespective of the restraint/ prohibition imposed by this Order.

155. This Order comes into force with immediate effect.

156. This Order shall be served on all the Noticees, Recognized Stock Exchanges, Depositories and Registrar and Share Transfer Agents of Mutual Funds to ensure necessary compliance.

Sd/-

SUJIT PRASAD

EXECUTIVE DIRECTOR

Date: May 31, 2023

Place: Mumbai

SECURITIES AND EXCHANGE BOARD OF INDIA