National Stock Exchange of India
Circular

Department: Investigation	
Download Ref No: NSE/INVG/56909	Date: May 31, 2023
Circular Ref. No: 143/2023	

To All NSE Members

Sub: SEBI Order in the matter of Sharon Bio- Medicine Limited

SEBI vide its Order no. WTM/ASB/CFID/CFID/26926/2023-24 dated May 31, 2023, has restrained following entities from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, in any manner whatsoever, for a period of 3 years from the date of this order.

Sr. No.	Name of the Entity	PAN
1	Ms. Savita Satish Gowda	AAOPM0195Q
2	Mr. Mohan P Kala	ABAPK5505H
3	Mr. Lalit Misra	ADZPM4757G
4	Mr. Vijay Kirpalani	AALPK2981K

This Order shall come into force with immediate effect.

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

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

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

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

In case of any further queries, members are requested to email us at dl-invsg-all@nse.co.in

National Stock Exchange of India

For and on behalf of

National Stock Exchange of India Limited

Sandesh Sawant
Senior Manager

ANNEXURE: - SEBI Order in the matter of Sharon Bio- Medicine Limited

WTM/ASB/CFID/CFID/26926/2023-24

SECURITIES AND EXCHANGE BOARD OF INDIA

FINAL ORDER

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

In respect of:

SL. NO.	NOTICEE(S)	PAN
1.	**Ms. Savita Satish Gowda**	**AAOPM0195Q**
2.	**Mr. Mohan P Kala**	**ABAPK5505H**
3.	**Mr. Lalit Misra**	**ADZPM4757G**
4.	**Mr. Vijay Kirpalani**	**AALPK2981K**

In the matter of Sharon Bio-Medicine Limited

Background:

1. Securities and Exchange Board of India (**SEBI**) noted that Foreign Currency Convertible Bonds (FCCB) holders of Sharon Bio Medicine Limited (**Sharon / the Company**), in their capacity as financial creditors of the Company, had filed a petition under Insolvency and Bankruptcy Code 2016 (**IBC 2016**) with National Company Law Tribunal (**NCLT**) on March 31, 2017 against Sharon, which was admitted by NCLT for commencement of Corporate Insolvency Resolution Process (**CIRP**) in April 2017. Subsequently, Haribhakti & Co. LLP was appointed for conducting Forensic Audit of operations of Sharon for the period July 01, 2014 to March 31, 2017 (**Review Period**). Subsequent to the said audit, the Forensic Auditor also conducted an additional review of transactions of 26 trading parties for the period July 01, 2011 to June 30, 2014. On analysis of Forensic Audit Reports (dated December 2017 and March 2019) along with the financials of the Company and data/information sought from promoters,

directors, auditor and Interim Resolution Professional (IRP) by SEBI for the period July 01, 2011 to March 31, 2017 (**Investigation Period**), the following were observed:

Misrepresentation of financials and books of accounts:

2. ***Overstating of sales and purchases (trading and non-trading) by the Company and non-reporting on related party transactions in financial statements.***

2.1 The sales and purchase transactions recorded by Sharon during the Review Period showed that Sharon was involved in both manufacturing and trading activities. A summary of the reported trading sales and purchases for FYs 2014-15 and 2015-16 and provisional financials for FY 2016-17 was as follows:

Table 1 -Summary of Trading Sales and Purchases **Rs. in Crores**

Particulars	**Jul-2014 to Jun-2015**		**Jul-2015 to Mar-2016**		**Apr-2016 to Mar-2017**		**Total**	**%**
Trading Sales	697.74	84%	138.80	55%	0.00	0%	836.54	68%
Trading Purchases	700.20	89%	148.52	70%	0.00	0%	848.72	79%
Difference (-) Loss	-2.46	-	-9.72	-	0.00	-	-12.18	-

Table 2- Top 5 Trading Debtors for July 2014 to March 2017 **Rs. in Crores**

Particulars	**Sales**	**% to total Sales**
Sunrath Trading Pvt.Ltd.	217.33	24%
Gaurang Enterprises	147.84	17%
N.K. Agencies	129.74	15%
Aarey Drugs & Pharmaceuticals Ltd	85.38	10%
Devraj Multitrade Pvt Ltd	48.53	5%
Sales of Top 5 customers	628.82	71%
Total Trading Sales (incl. tax component)	888.69	100%

Table 3 –Top 5 Trading Creditors from July 2014 to March 2017 **Rs. In Crores**

Particulars	**Purchases**	**% to total Purchases**
Sovin Trading Pvt Ltd	190.06	21%
Impressive Trading Pvt Ltd	191.51	21%
Idol Multitrade Pvt Ltd	130.86	14%
Alchemist Multitrade Pvt Ltd (Trading)	69.25	8%
Medichem Lifescience Pvt Ltd	16.04	2%
Purchases from Top 5 vendors	597.72	65%
Total Trading Purchases (incl. tax component)	917.96	100%

2.2 It was observed that the Company did not provide to the Forensic Auditor, the proof of movement of goods for trading transactions; purchase and sales agreements with vendors and customers and customer master data (due to which balance confirmations from customers could not be obtained). Further, the inward registers pertaining to Plant - W34 (for July 14 to Nov 14 and April 15 to Oct 15) and Plant - L6 (for July 14 to Oct 15. Plant- Utt for 14-15, 15-16 & 16-17) were not furnished. The Company also did not provide debtor and creditor ageing reports with mapping of outstanding invoices. Further, pricing comparisons for purchase and sales could not be conducted as pack size details of units were not available in the sales and purchase registers which were furnished.

2.3 On review of purchase & sales transactions of 26 trading parties for the period July 2011 to June 2014 and on comparison of the payments and receipts with the bank statements, it was observed that the total sales & purchases to these trading parties were Rs. 2,370.31 Crore and Rs.2,501.22 Crore respectively. Year on Year ("YOY") comparison of trading activities revealed that a large proportion of trading transactions were executed during the FY 2013-14.

Table 4: Year wise summary of purchase and sale **Rs. in Crores**

Particulars	Sales			Purchases		
	Financials	Trading Parties	%	Financials	Trading Parties	%
Jul'11 –Jun'12	785.06	469.52	60%	696.98	537.73	77%
Jul'12 – Jun'13	1059.50	822.07	78%	966.10	852.00	88%
Jul'13-Jun'14	**1291.61**	**1,078.72**	**84%**	**1174.96**	**1,111.49**	**95%**
Total	3136.17	2370.31		2838.04	2501.22	

Table 5: Summary of transactions with trading parties **Rs. in Crores**

Particulars		No.	Opg. Bal.	Sales	Purchases	Receipt	Payments
Trading parties	Mgmt. Control	7	143.02	2097.09	-1942.73	-728.66	641.01
	Others	16	-24.69	273.22	-558.50	-91.09	279.17
Total		**23**	**118.34**	**2370.31**	**-2501.22**	-819.75	920.18

2.4 Further, there were no documentary evidences to substantiate movement of goods in any of the trading transactions examined for the period July 2011 to June 2014. Out of sample of 125 sale transactions and 175 purchase transactions with these trading parties (sampled on the basis of high volumes of transactions), no documentation was received for 117 sale transactions and 170 purchase transactions. Further, the documentation furnished for 8 sales & 5 purchase transactions was inadequate.

2.5 A summary of non-trading purchases and sales was as follows:

Table 6: Summary of Non Trading Purchase & Sale transactions Rs. in Crores

Particulars	Jul-2014 to Jun-2015		Jul-2015 to Mar-2016		Apr-2016 to Mar-2017		Total	%
Sales Exports	81.24	10%	67.37	26%	72.47	54%	221.08	18%
Sales Domestic	52.53	6%	42.38	17%	57.41	42%	152.32	12%
Sales Job Work	2.45	0%	4.91	2%	5.09	4%	12.45	1%
Total Non-Trading Sales	136.22	16%	114.66	45%	134.97	100%	385.85	31%
Total Non-Trading purchase	82.2	38%	62.31	35%	78.43	37%	222.94	37%

2.6 On review of sample transactions based on high volumes for non-trading purchase and sales transactions, it was observed that the underlying documentations were either not provided or were inadequate. Out of total sample purchases valued at Rs.53.24 Crores, the documentation (Invoice, GRN, Delivery Challan and Transporter Copy) was unavailable / incomplete for purchases valued at Rs.48.26 Crores. Similarly, out of total sample sales of value Rs.164 Crores, the documentation was unavailable / incomplete for sales totaling Rs.11.87 Crores. On analysis of the financial statements of Sharon, the following were observed:

2.6.1 Majority of the business of Sharon during July 2014 to March 2016 was derived from trading activities only. During the period July 2014 to June 2015, trading sales and purchases constituted 84% an 89% of the total sales and total purchases, respectively. Similarly, during July 2015 to March 2016, trading sales and purchases constituted 55% and 70% of the total sales and total purchases, respectively.

2.6.2 On analysis of top 5 trading debtors and creditors for the period July 2014 to March 2017, the following were observed:

- 4 debtors were connected parties (parties under management control) and the sales to these connected parties during the above period were Rs.543.44 crores (61.15% of total trading sales).
- 4 creditors were connected parties (parties under management control) and the purchases from these connected parties during the Review Period were Rs. 581.68 crores (63.37% of total trading purchases).

2.6.3 Thus, during the period July 2014 to March 2016, majority of the sales and purchases were trading sales and trading purchases, out of which approx. 60% were transactions with connected parties.

2.6.4 The above related party transactions were not disclosed in the financial statements of FY 2014-15 and FY 2015-16, thus violating AS 18 - Related Party Disclosures. The same was is in violation of 4(2)(a)&(b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**LODR Regulations, 2015**).

2.6.5 The trading sales decreased from Rs.138.80 crores in July 2015-March 2016 to Nil in FY 2016-17 whereas trading purchases decreased from Rs.148.52 crores in July 2015- March 2016 to Nil in FY 2016-17 which was unusual. The total sales and total purchases reported in the financial results for FY 2016-17 were Rs.134.97 crore and Rs. 78.43 crore, which consisted entirely of non-trading sales and purchases.

Table 7: Comparison of trading sales and purchases (Rs. in Crores)

Particulars	Jul-2014 to Jun-2015	July 2015-March 2016	Apr-2016 to Mar-2017	Total sales in financial results (FY 2016-17)	Total purchases in financial results (FY 2016-17)
Trading sales	697.74	138.80	00.00		
Trading purchases	700.20	148.52	00.00		
Non Trading Sales	136.22	114.66	134.97		
Non-Trading purchases	82.2	62.31	78.43	134.97 (non-trading)	78.43 (non-trading)

2.6.6 The sudden reduction in trading sales from Rs.697.74 Crores in 2014-15 to to nil in 2016-17 appeared to be a deviation from normal business practice. Considering the fact that majority of the trading sales and purchases were from related parties and there was no proof of movement of goods, purchase and sales agreements and balance confirmations from customers for these transactions, it appeared that the trading sales and trading purchases made by the Company from July 2014 to March 2016 were fictitious in nature and did not represent true and fair view of the financial position of the Company and hence were misleading to the investors.

2.6.7 Further, it was observed that invoices were not available in 53% of the non-trade purchases amounting to Rs. 28.29 crore and GRN, Delivery Challan & Transporter Copy were not available for 21% of the non-trade purchases transactions worth Rs. 39.5 crore. This raised doubts over the genuineness of these transactions as well as the amount of purchases recorded in the balance sheet for the said period.

2.6.8 Further, on analysis of the non-trading debtors and creditors, it was observed that Sharon had sold goods worth Rs. 13.68 crores to Perrigo Company Plc (Irish–registered manufacturer of private label over-the-counter pharmaceuticals). On the basis of data available in public domain, it was noted that Perrigo was legally headquartered in Ireland for tax purposes. In 2013, Perrigo completed the 6th-largest U.S. corporate tax inversion in history when it re-registered its tax status to Ireland to avoid U.S. corporate taxes. On 21 December 2018, Perrigo suffered its biggest one-day share price fall in its history after the Irish Revenue Commissioners issued a tax claim against Perrigo that was equal to half of its market value. Thus, the sales transactions amounting to Rs. 13.68 crore to a company facing tax related issues raised doubt about the collectability of the receivables as well as genuineness of these transactions.

2.6.9 The non-trading sales and purchases reported in the financial statements were not backed by supporting documents and hence inflated to give a healthy picture to the investors and users of financial statements for the period July 2011 to March 2017.

2.6.10 The total sales and purchases mentioned in the financial statements from FY 2011-12 to FY 2016-17 were as follows:

Table 8: Purchases/Sales reported in financial statements (Rs. in Crores.)

FY	Sales	Increase/ (Decrease)	Purchases	Increase/ (Decrease)
2011-12	804.32	-	714.58	
2012-13	1,059.50	255.18	96,6.10	251.52
2013-14	1,313.77	254.27	1,174.96	208.86
2014-15	833.95	**-479.81**	787.47	**-387.49**
2015-16 (9 M)	253.45	**-580.50**	210.82	**-576.65**
2015-16 (12 M)	390.05	-443.91	325.78	-461.69
2016-17	138.81	-251.24	78.43	-247.34

2.6.11 As per Sharon's director's report for FY 2013-14, the fire that occurred in June 2014 had caused loss of stock of Rs. 2215.65 lacs and capital loss (plant and machinery) of Rs. 1458.69 lacs (WDV basis). It was also stated that "*having a sharper view and associated with experience professionals,* *the management of your company expanded in formulation unit and research & development activities. Rs. 85 Crores (Rupees Eighty Five Crores) had already been deployed in expansion of formulation plant located at Uttarakhand. It is our pride to let the owners know that your company has successfully invested more than Rs. 85 Crores (Rupees Eighty Five Crores) in the expansion of formulation plant located at Uttarakhand. The outcome of which can even be evaluated by a layman. In term of production quantity enhancement,* ***the expanded plant can now produce more than double as compared to one year back, with hardly any room left for any sort of wastage or damage****. It was again the timely completion of our project work which gave us the upper hand and* ***helped us battle the sales and other opportunities which got demolished after one of our old API's plant was disturbed by the fire, which took place in the month of June, 2014***."

2.6.12 However in the directors report for FY 2014-15 mentioned that, *"**The main reason for loss for FY 2014-15 is the fire in Taloja plant in June 2014 and subsequent to that there were rejection of goods from customers due to quality issues**"*. It was noted from the table above that the amount of decrease in sales and purchases was not commensurate with the loss of stock and capital loss mentioned in the abovementioned directors' report. Also there were inconsistencies in the statements mentioned in director's report for both the years. As mentioned in Table 4 above, majority of trading transactions (with connected parties) were executed during the period FY 2013-14. This corroborated the evidence that the purchases and sales mentioned in financials for FY 2013-14 were inflated through fake transactions with connected parties.

2.6.13 Thus, there was no coherence between the figures mentioned in the financial statements and the directors' reports for FY 2013-14 and FY 2014-15, which did not give a true/clear picture of the affairs of the Company to the investors. The same led to violation of AS-18 -Related Party Disclosures which in turn was a violation of Regulation 4(2)(a)&(b) of the LODR Regulations, 2015.

3. **Sales and purchases from related parties not commensurate with the corresponding receipts and payments.**

3.1 It was observed that cash flows from trading activities did not match up with the high volumes of trades recorded in the books. As illustrated in the table below, payments of only 24 - 36% were made to Devraj Multitrade and Impressive Trading Private Limited, out of the total value of purchases made from these parties. Similarly, receipts of only 22 - 23% were received out of the total sales to N.K Agencies and Gurang Enterprises**.**

Table No 9: Combined table for the period July 2011 to March 2017 (Rs. in Crores)

Particulars	Period	Sales	Receipts	Purchases	Payments
Aarey Drugs & Pharmaceuticals Ltd	Jul 11 - Jun 14	76.76	-	-65.59	0.24
Alchemist Multitrade Pvt. Ltd	Jul 11 - Jun 14	170.39	-324.85	-	110.74
Bafna Pharmaceuticals Ltd	Jul 11 - Jun 14	-	-67	-0.14	68.36
Emerald Alchymicus Pvt. Ltd	Jul 11 - Jun 14	10.42	-19.39	-11.11	24.31
Enam Organics India Ltd	Jul 11 - Jun 14	2.97	-5.95	-	-
Idol Multitrade Pvt. Ltd	Jul 11 - Jun 14	186.48	-399.75	-	96.63
Kunal Enterprises	Jul 11 - Jun 14	0.34	-16.27	-5.88	11.53
Sovin Trading Pvt. Ltd	Jul 11 - Jun 14	12.51	-615.05	-6.05	159.12
Sunrath Trading Pvt. Ltd	Jul 11 - Jun 14	700.05	-	-498.57	-
Devraj Multitrade Pvt. Ltd	Jul 11 - Jun 14	374.4	-163.73	-3.9	123.62
Devraj Multitrade Pvt. Ltd	Jul 14 - Mar 17	48.53	0	-124.45	30.12
		422.93	**-163.73**	**-128.35**	**153.74**
Impressive Trading Pvt. Ltd	Jul 11 - Jun 14	76.47	-764.19	-6.5	261.63
Impressive Trading Pvt. Ltd	Jul 14 - Mar 17	0	-8.58	-191.51	68.67
		76.47	**-772.77**	**-198.01**	**330.3**
Gaurang Enterprises	Jul 11 - Jun 14	388.57	-	-68.25	0
Gaurang Enterprises	Jul 14 - Mar 17	147.84	-33.55	0	0
		536.41	**-33.55**	**-68.25**	**0**
N K Agencies	Jul 11 - Jun 14	358.62	-	-145.39	-
N K Agencies	Jul 14 - Mar 17	129.74	-28.32	0	0
		488.36	**-28.32**	**-145.39**	**0**

3.2 From the above Table, it was observed that either receipts and payments were miniscule as compared to sales and purchases or sales and purchases were recorded with no corresponding receipts and payments.

3.2.1 Devraj Multitrade Private Limited: Receipts were only 38.71% of sales.

3.2.2 Gaurang enterprises: Receipts were only 6.25% of total sales whereas there were no payments corresponding to purchases of Rs. 68.25 crores.

3.2.3 N K Agencies: Receipts were only 5.79% of the total sales whereas there were no payments corresponding to purchases of Rs. 145.39 crores.

3.2.4 Aarey Drugs & Pharmaceuticals Limited and Sunrath Trading Private Limited: Sales and purchases were recorded with no or negligible corresponding receipts and payments.

3.3 It could thus be seen that Sharon had inflated its sales and purchases by recording fictitious transactions where there were no actual receipts or payments.

3.4 Further, in the following cases, it was observed that sales and purchases recorded were very miniscule, as compared to the receipts and payments:

3.4.1 Impressive Trading Private Limited: Sales were only 9.89% of the receipts.

3.4.2 Kunal Enterprises: Sales recorded were just 2% of receipts.

3.4.3 Sovin Trading Private Limited: Sales recorded were just 2% of receipts whereas purchases were just 4% of payments.

3.4.4 Bafna Pharmaceuticals Limited: Receipts and payments were recorded without corresponding sales and purchases.

3.4.5 Alchemist Multitrade Pvt. Ltd, Enam Organics India Ltd. and Idol Multitrade Pvt. Ltd.: Payments were recorded without corresponding purchases.

3.5 Sharon was asked to provide supporting documents as well as submit the reasons for such huge difference in amount of sales and purchases with respect to corresponding receipts and payments. However, the Company, in its reply, stated that the said data was available at alternate promoter office not owned by Sharon and hence not available with the Company. Non-submission of supporting documents by the Company *prima facie* indicated that these transactions were non-genuine and there was no intention on part of the Company and its directors to prove otherwise.

3.6 Thus, the transfer of funds among the abovementioned parties without corresponding sales and purchase transaction, as brought out in the Table above, indicated that these were just book entry transactions to inflate corresponding items in Profit & Loss Account.

4. **Incorrect reporting of assets in the financial statements – based on incidence of fire**

4.1 A summary of the Company's Fixed Assets, as disclosed in its financial statements for FY 2014-15 & FY2015-16 and provisional financial statements for FY 2016-17, is as follows:

Table 10: Summary of Fixed Assets **Rs. in Crores**

Particulars	Jun-2015		Mar-2016		Mar-2017	
	Gross Block	Additions	Gross Block	Additions	Gross Block	Additions
Electricals fittings	13.04	1.64	13.04		17.44	
Building	74.02	2.99	74.03	0.01	74.39	
Computer	2.41	0.06	2.46	0.05	2.00	0.07
Delhi office	-		0.08		-	
Furniture & fixtures	4.02		4.16	0.13	2.60	0.07
Lab equipment	18.16	0.31	18.32	0.16	12.83	0.56
Land	12.03		12.03		11.57	
Motor car	2.00	0.03	2.08	0.08	0.75	
Office Equipment	2.49	0.48	2.50	0.01	2.85	0.04
Office premises	33.01	3.09	32.93		28.47	
Plant & machinery	245.48	17.72	246.51	1.03	256.39	0.90
Gross assets	406.66		408.14		409.29	
Accumulated depreciation	74.58		89.60		119.65	
Grand total	332.08	26.33	318.54	1.47	289.64	1.63

4.2 On the basis of data available in public domain, it was noted that the fire had occurred in the premises on June 03,2014. The Company, in its directors' report for FY 2013-14, had mentioned that "*Your directors had opted for the replacement insurance policy instead of normal insurance policy on capital goods. Thereby, you will be pleased to know that your company will be receiving the current replacement value of plant & machinery that has been lost due to fire and not the Written Down Value of Plant & Machinery lost in fire. Keeping uncertainty on mind your company have taken the loss of profit policy, in case the profit of company is hampered in any form. Your company has put up the total claim of approx Rs.40,00,00,000 (Rupees Forty Crores) including the loss of factory building and some furniture & fixtures. Further, it would be worth noting that because the fire had occurred in the last month of the financial year 2014, therefore, there was negligible operational loss of production and sales pertaining to the reporting period ending as on 30 June, 2014. To refrain the impact of production & sales loss that would have had surely been casted on the future months on production & sales, the* *management of your company took the immediate corrective steps by making the tie-ups with some of the job work at some other factory sites so as to carter the production & marketing demand*."

4.3 Further, in the directors report for FY 2014-15, the Company had mentioned that it had applied for insurance claim of Rs. 3869.57 lacs, however, only Rs 1000 lacs had been received from the insurance company and it was fully adjusted towards loans availed from various banks. Thus, the Company utilized the amount received for replacement of plant and machinery towards repayment of loans from banks.

4.4 In the financials of FY 2013-14, the Company had stated that fire had occurred at the Company's premises located at W-34 a W-34/1 MIDC Taloja location on June 03, 2014, resulting into plant and machinery loss (on WDV basis) of Rs.14.59 Crore**.** However, Fixed Asset Schedule in financials of FY 2013-14 revealed that there was deletion of fixed assets amounting to Rs.5.55 Crore only (on WDV basis) and there was no major asset deletion during the Review Period. The same indicated that the fixed assets, reflected in the Fixed Asset Schedule, did not reflect the true position of assets available with the Company and this led to overstatement of assets by Rs.9.04 Crores.

4.5 The Company replied that balance Rs. 9.04 Crore had been shown under "Re instatement of Fixed Asset Reserve". However, loss of machine due to fire could not be shown as profit during the year under reserves and surplus and the same amounted to mis-representation of the amount of reserves and surplus mentioned in the financial statements of FY 2013-14. Thus, there was inflation of reserves and surplus by Rs. 9.04 crore.

4.6 Further, assets of Rs. 4.30 Crore (on gross block basis) were written off during the year 2016-17. The Company informed that these were written off on account of loss by fire. However, all these assets were appearing as steel in Fixed asset register. It was noted that since fire had occurred in the premises in June 2014, the assets should have been written off during the year 2014-15 (July 2014 - June 2015) and not FY 2016-17. Thus, fixed assets mentioned in the financials for FY 2014-15 and FY 2015-16 were overstated by Rs. 4.30 Crore and did not reflect the true and fair picture, as per AS 10 - Fixed Assets.

4.7 Further, documentary evidences for samples of fixed assets additions for Rs. 2.86 Crore out of Rs.7.08 Crore and deletions of Rs.0.15 Crore out of Rs.0.52 Crore were not furnished. Out of these, Rs.40 lacs pertained to purchases from Devraj Multitrade Pvt Ltd., which was a party under management control.

5. **Lack of documentation for loans from related parties (preference share warrants issued against it / netted off against debtor's balances).**

5.1 Agreements for unsecured loans i.e. Inter Corporate Deposits and loans, from related parties were not furnished.

5.2 Preferential Dividend warrants were converted into equity in FY 2014-15 and as per narration mentioned in the books of accounts, these warrants were issued against unsecured loans. However, in absence of the required supporting documents, i.e. board resolution and details of allotment of these preferential warrants, the rationale of such adjustments could not be assessed. Also, details and supporting documentation for unsecured loans created against sale of shares were not provided. Following is a summary of the parties whose unsecured loans were converted into equity through preferential warrants.

Table 11 -Dividend Warrants converted to Equity

Sr. No.	Name of the party	Amount in Rs.
1	Bagulvani Trading & Invt Pvt Ltd	11,33,95,000
2	Lalit Misra	1,18,25,000
3	MP Kala	5,84,45,000
4	Ramco Properties Pvt. Ltd	20,62,40,000
5	Revon Finance & Invt. Pvt Ltd	5,00,00,000
6	Savita Gowda	1,55,00,000
7	Venus Global Management Consultancy	21,29,30,000
	TOTAL	**66,83,35,000**

5.3 Outstanding debtors balances were adjusted against liabilities (i.e. unsecured loans from related parties and sales of shares liabilities). The net value of these adjustments were Rs. 33.53 Crore for July 2014 to March 2017 and Rs. 29.77 Crore during July 2011 to June 2014. No documentary evidences, such as communication with these parties, approval etc., were made available.

Table 12: Liabilities netted off with Debtor's balances Amount in Crores

Name of Unsecured Lenders		Period	Op. Bal	Receipts	Payments	Transfers	Closing balance	Remarks
Revon Finance & Invt. Pvt Ltd		Jul 2014 to Mar 2017	1.41	0.00		-1.41	0.00	Liability was created from credit balance of receivables Account (i.e. a suspense account). Subsequently the liability was netted off with Sunrath Trading Private Limited
Asha M Kala		Jul 2014 to Mar 2017	2.43	0.16		-2.59	0.00	Liability was created due to pledged shares of individual sold off by Bank against borrowings. The liability was netted off with the balances of the Trading Parties i.e. Sovin Trading Ltd, Impressive Trading Pvt Ltd and Sunrath Trading Private Limited.
Ramco Properties Pvt. Ltd.		Jul 2014 to Mar 2017	0.14	5.82		-5.95	0.00	Liability was created from credit balance of Receivables Account (i.e. a suspense account). Subsequently the liability was netted off with Sunrath Trading Private Limited and Chimex Industries.
Bagulvani Trading & Invt Pvt Ltd		Jul 2014 to Mar 2017	7.36	4.23		- 11.59	0.00	Liability was created from credit balance of Receivables Account (i.e. a suspense account). Subsequently the liability was netted off with Sunrath Trading Private Limited.
Venus Global Management Consultancy		Jul 2014 to Mar 2017	- 0.26	15.06		- 14.80	0.00	Liability was created from credit balance of Receivables Account (i.e. a suspense account) .Subsequently the liability was netted off with Sunrath Trading Private Limited.
India Factoring		July 2011 to June 2014	-	- 14.03	5.87	4.68	- 4.32	Liability was created from funds received from India Factoring. Subsequently the liability was netted off with Aarey Drugs & Pharmaceuticals Ltd. Interest was also charged worth Rs.0.65 Cr but could not ascertain if that was pertaining to India Factoring.
Sicom Limited		July 2011 to June 2014	- 9.99	-	32.48	- 34.45	10.99	Liability was created from funds received from Sicom Ltd. Subsequently the liability was netted off / increased with balance transferred from / to Devraj Multitrade Pvt Ltd (Rs.10.24 Cr.), Impressive Trading Pvt Ltd (Rs. 13.21 Cr.), Sovin Trading Pvt Ltd (Rs.10.92 Cr.), Interest Others (Rs.1.32 Cr.) and Abhyankar Properties Pvt Ltd. (Rs. 1.25 Cr.)

5.4 Creation of liability from credit balance of receivables account through suspense account was not a prudent accounting practice and netting off of unsecured loans with debtors indicated that both unsecured loans as well as debtors were overstated in the books of accounts. Also, it was observed that unsecured loans were taken from related parties (Revon Finance & Invt. Pvt Ltd, Ramco Properties Pvt. Ltd., Bagulvani Trading & Invt Pvt Ltd and Venus Global Management Consultancy) whereas these balances were set off against debtor Sunrath Trading Private Limited, which was a party under management control. It thus raised concern over the amount of debtors as well as unsecured loans mentioned in the financial statements and whether actual sales transactions had been entered with the debtors. This was supported by the fact that no documentary evidences such as communication with these parties, approval etc. were made available. Also, lack of supporting documents for loan agreements as well as conversion of unsecured loans into preferential dividend warrants and further into equity indicated that the lenders (related parties) were made equity shareholders of the Company.

5.5 The Company provided the following list of unsecured loans from related parties in its reply, for the period FY 2011-12 to FY 2016-17:

Table 13 **In Rs.**

Particulars	**Opening**	**Transactions**		**Closing**
1-Jul-2011 to 30-Jun-2012	**Balance**	Debit	Credit	**Balance**
Amita Kala	1632933.00			1632933.00
Asha M Kala	1500000.00			1500000.00
Bagulvani Trading & Invt Pvt Ltd	110483317.00			110483317.00
Lalit Misra -	677280.00			677280.00
M P Kala	1715000.00			1715000.00
Unsecured Rounded Off	16828.00			16828.00
Savita Gowda	1255800.00			1255800.00
Grand Total	**117281158.00**			**117281158.00**

Particulars	**Opening**	**Transactions**		**Closing**
1-Jul-2012 to 30-Jun-2013	**Balance**	Debit	Credit	**Balance**
Amita Kala	1632933.00			1632933.00
Asha M Kala	1500000.00			1500000.00
Bagulvani Trading & Invt Pvt Ltd	110483317.00		*70000000.00*	180483317.00
Lalit Misra -	677280.00	*1456100.00*	*1450000.00*	671180.00
M P Kala	1715000.00		*28722361.00*	30437361.00
Ramco Properties Pvt. Ltd.			*31235000.00*	31235000.00
Revon Finance & Invt. Pvt Ltd			*57985000.00*	57985000.00
Savita Gowda	1255800.00			1255800.00
Unsecured Rounded Off	16828.00			16828.00

Venus Global Management Consultancy			*14803000.00*	14803000.00
Grand Total	**117281158.00**	***1456100.00***	***204195361.00***	**320020419.00**

Particulars	**Opening**	**Transactions**		**Closing**
1-Jul-2013 to 1-Jul-2014	**Balance**	Debit	Credit	**Balance**
Amita Kala	1632933.00			16,32,933.00
Asha M Kala	1500000.00		2,28,10,000.00	2,43,10,000.00
Bagulvani Trading & Invt Pvt Ltd	180483317.00	10,69,00,000.00		7,35,83,317.00
Lalit Misra -	671180.00	6,05,000.00		66,180.00
M P Kala	30437361.00	3,34,02,000.00	96,40,000.00	66,75,361.00
Ramco Properties Pvt. Ltd.	31235000.00	3,36,99,268.00	38,30,000.00	13,65,732.00
Revon Finance & Invt. Pvt Ltd	57985000.00	4,82,18,909.00	43,30,000.00	1,40,96,091.00
Savita Gowda	1255800.00	39,95,000.00	22,09,286.42	-5,29,913.58
Preferencial Dividend Warrants		25,80,50,000.00	25,80,50,000.00	-
Unsecured Rounded Off	16828.00	16,828.00		-
Venus Global Management Consultancy	14803000.00	3,12,12,995.00	1,38,50,000.00	-25,59,995.00
Grand Total	**320020419.00**	**51,61,00,000.00**	**31,47,19,286.42**	**11,86,39,705.42**

Particulars	**Opening**	**Transactions**		**Closing**
1-Jul-2014 to 1-Jul-2015	**Balance**	Debit	Credit	**Balance**
Amita Kala	1632933.00	*1632933.00*		
Asha M Kala	24310000.00	*15000000.00*	*14716769.54*	24026769.54
Bagulvani Trading & Invt Pvt Ltd	73583317.00	*5059743.00*	*42320000.00*	110843574.00
Lalit Misra - Exp.	66180.00			66180.00
M P Kala	6675361.00		*4132933.00*	10808294.00
Ramco Properties Pvt. Ltd.	1365732.00		*56815000.00*	58180732.00
Revon Finance & Invt. Pvt Ltd	14096091.00		*2015000.00*	16111091.00
Savita Gowda	529913.58		*2500000.00*	1970086.42
Venus Global Management Consultancy	2559995.00		*186340236.00*	183780241.00
Grand Total	**118639705.42**	***21692676.00***	***308839938.54***	**405786967.96**
Particulars	**Opening**	**Transactions**		**Closing**
1-Jul-2015 to 31-Mar-2016	**Balance**	Debit	Credit	**Balance**
Asha M Kala	24026769.54	*1216769.54*	*284810.00*	23094810.00
Bagulvani Trading & Invt Pvt Ltd	110843574.00	*110843574.00*		
Lalit Misra - Loan	66180.00	*66180.00*		
M P Kala	10808294.00		*59403232.35*	70211526.35

Ramco Properties Pvt. Ltd.	58180732.00	*60230732.00*	*2050000.00*	
Revon Finance & Invt. Pvt Ltd	16111091.00	*16111091.00*		
Savita Gowda	1970086.42		*532788.00*	2502874.42
Venus Global Management Consultancy	183780241.00	*183780241.00*		
Grand Total	**405786967.96**	***372248587.54***	***62270830.35***	**95809210.77**

Particulars	**Opening**	**Transactions**		**Closing**
1-Apr-2016 to 31-Mar-2017	**Balance**	Debit	Credit	**Balance**
Asha M Kala	23094810.00			23094810.00
M P Kala	70211526.35			70211526.35
Savita Gowda	2502874.42			2502874.42
Grand Total	**95809210.77**			**95809210.77**

5.6 Para 23 of AS 18- Related Party Disclosures stated that *"If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following: (i) the name of the transacting related party"*. However, Sharon reported the related party transactions as a combined figure without bifurcating the same into individual related parties and hence, did not comply with the provisions of AS 18. Further, the Company stated that the supporting documents for these unsecured loans, preferential dividend warrants and outstanding balance being netted off with unsecured loans were not available with the Company as these documents were maintained at alternate promoter office.

6. **Misstatement of receivables and payables mentioned in the financial statements - Prior period debtors written off without any supporting documentation or effort for recovery, common debtors and creditors and inter se adjustment of debtors and creditors.**

6.1 It was observed that out of Rs. 245 Crores receivables written off during the Review Period, Rs. 232.66 Crores pertaining to 277 debtors were prior period balances (i.e. prior to July 2014) and there were no transactions in these accounts during the Review Period. As these balances were carried forward balance from previous period, it was difficult to ascertain whether these were against genuine business transactions which were not recoverable or fictitious balances subsequently written off. The management did not provide reasons for such write offs. Further, there was no documentation provided regarding follow up process for collections and legal actions taken against these debtors. High amount of write offs indicated that the practice of inflating revenues was prevalent in the period prior to July 2014 as well. Following were the top 5 debtors:

Table 14 -Top debtors write offs **Rs. in Crores**

Party Name	Opg Bal. July 2014	Sales	Purchases	Receipts	Drs W/Off	Clg Bal Mar' 2017
Kuber Exports	10.88	0	0	0	10.88	0
Syncom Healthcare Ltd	10.82	0	0	0	10.82	0
Aryan Pharma	7.94	0	0	0	7.94	0
Gladrags Exports	7.9	0	0	0	7.9	0
Shirish Polychem Pvt.Ltd.	6.34	0	0	0	6.34	0
Cromatics India Pvt Ltd	4.93	0	0	0	4.93	0
Total	**48.81**	**0.00**	**0.00**	**0.00**	**48.81**	**0.00**

6.2 Further, purchases and sales were recorded in same party accounts, which resulted in receivables and payables balances being netted off. It was observed that a total of 6 trading parties were involved in both purchase and sales transactions for the period July 2014 to March 2017 and 9 such parties for the period July 2011 to June 2014.

Table 15 – Common Debtors and Creditors **Rs. in Crores**

Party Name	Period	Opening Balance	Sales	Purchases	Receipt	Payment	LC Payments	Net off adjustments with other party accounts	Other Adjustments	Clg Bal	Net Inflow /Outflow of funds
Emerald Alchymicus Pvt Ltd	Jul'11 - Jun'14	-	10.42	-19.39	-11.11	24.31	-	-	-	4.24	13.21
Enam Organics India Ltd	Jul'11 - Jun'14	-	2.97	-5.95	-	-	-	-	-	-2.98	-
Impressive Trading Pvt Ltd	Jul'11 - Jun'14	15.76	76.47	-764.19	-6.5	261.63	3.95	13.21	-0.83	-400.51	255.13
Kunal Enterprises	Jul'11 - Jun'14	-1.85	0.34	-16.27	-5.88	11.53	9.72	-	-0.72	-3.12	5.65
Sovin Trading Pvt Ltd	Jul'11 - Jun'14	231.18	12.51	-615.05	-6.05	159.12	5.13	10.92	-0.42	-202.66	153.07
Alchemist Multitrade Pvt Ltd	Jul'14 – Mar'17	0.48	108.02	-69.25	-0.54	25.77	0	-65.7	1.26	0.05	25.23
Alchemist Multitrade Pvt Ltd	Jul'11 - Jun'14	-42.17	170.39	-324.85	-	110.74	-	9.08	-	-76.8	110.74
		-41.69	**278.41**	**-394.1**	**-0.54**	**136.51**	**0**	**-56.62**	**1.26**	**-76.75**	**135.97**

Arvind Remedies Ltd	Jul'14 – Mar'17	-4.8	30.2	-40.27	-1.21	0	0	16.08	0	0	-1.21
Devraj Multitrade Pvt Ltd	Jul'14 – Mar'17	2.43	48.53	-110.13	0	0	0	58.87	0.29	0	0
Devraj Multitrade Pvt Ltd	Jul'11 - Jun'14	168.05	374.4	-163.73	-3.9	123.62	-	10.24	-0.13	508.55	119.73
		170.48	**422.93**	**-273.86**	**-3.9**	**123.62**	**0**	**69.11**	**0.16**	**508.55**	**119.73**
Idol MultitradePvt Ltd	Jul'14 – Mar'17	-3.13	63.46	-130.86	0	26.44	0	41.53	2.62	0.05	26.44
Idol Multitrade Pvt Ltd	Jul'11 - Jun'14	-37.61	186.48	-399.75	-	96.63	-	8.66	-	-145.59	96.63
		-40.74	**249.94**	**-530.61**	**0**	**123.07**	**0**	**50.19**	**2.62**	**-145.54**	**123.07**
Lakeland Chemicals India Ltd	Jul'14 – Mar'17	-1.98	42.22	-25.28	0	28.39	0	-85.14	41.79	0	28.39
Lakeland Chemicals India Ltd	Jul'11 - Jun'14	27.12	12.28	-118.31	-8.25	57.71	-	-	0	-29.46	49.45
		25.14	**54.5**	**-143.59**	**-8.25**	**86.1**	**0**	**-85.14**	**41.79**	**-29.46**	**77.84**
Sunrath Trading Pvt Ltd	Jul'14 – Mar'17	6.45	217.33	3.05	69.2	0	0	134.78	8.01	8.73	-69.2
TOTAL		**359.93**	**1356.02**	**-2800.23**	**25.76**	**925.89**	**18.8**	**152.53**	**51.87**	**-339.5**	**813.26**

6.3 Further, there was inter se adjustment of debtors and creditors. Balance of debtors' accounts adjusted amounted to Rs. 336.91 Crore. and creditor accounts amounted to Rs.314.54 Crore for the period July 2014 to March 2017. During July 2011 to June 2014 balances of 26 trading parties were adjusted amongst each other through book entries and also with additional 26 parties / individual ledgers / expense ledgers (like Interest-Others) / fictitious ledger (like Receivables). The total value of these adjustment entries amounted to Rs.20.44 Crore in debtors accounts and Rs.25.87 Crore in creditor accounts.

Table 16 - Party-wise Adjustment / Netting off (July 2011 to June 2014) Rs. in Crores

Party Name	Classification	Netting off against other parties
Sundry Debtor	Sovin Trading Pvt Ltd	10.92
	Sunrath Trading Pvt Ltd	-31.36
Sundry Creditor	Devraj Multitrade Pvt Ltd	10.24
	Gaurang Enterprises	-10.66
	Idol Multitrade Pvt Ltd	8.66
	Alchemist Multitrade Pvt Ltd	9.08
	Impressive Trading Pvt Ltd	13.21
	Aarey Drugs & Pharmaceuticals Ltd	-4.68
	Anshul Life Sciences	0.01

6.4 Further, on ledger scrutiny, it was observed that outstanding balances were adjusted amongst debtors and creditors also in the following accounts:

Table 17: Instances of balance adjustment between debtors and creditors

Amount in Rs.

Particulars	Opening Balance as on 1stJuly 2014 (A)	**Debit (B)**	**Credit (C**	**Closing balance as on 31 March 2017 (D)**	**Closing Stock as per working (A+B-C=D)**	**Comments from client**
Win Chemicals	61,87,157	0.00	61,42,616	0.00	44,541	Adjusted in excel format with receivable
Devraj Multitrade Pvt Ltd	0.00	1418,56,815.48	1432,29,682.18	0.00	(13,72,866.70)	Adjustment between debtors and creditors

6.5 High amount of write offs along with no effort for recovery indicated that the practice of inflating revenues was prevalent in the period prior to July 2014 as well. Write offs done by the Company without appropriate documentation and effort for recovery indicated that the shareholders' funds were not prudently utilized by the company.

6.6 Further, purchases and sales were recorded in same party accounts which resulted in receivables and payables balances being netted off. Inter se adjustment of debtors and creditors did not signify prudent accounting practice. It also indicated that the purchases and sales were inflated, considering the non-availability of supporting documents and miniscule amount of receipts and payments.

6.7 The Company stated in its reply that data regarding prior period write off / inter se adjustment of debtors and creditors and common debtors and creditors was not available with it, as the same was maintained at alternate promoter office.

7. Expenses incurred in cash not backed by appropriate supporting documents.

7.1 It was observed that for the period from June 2015 to March 2017, Sharon had incurred expenses in cash to the tune of Rs.7.56 crore, out of which supporting documents were not provided for the selected sample expenses of Rs.3.04 crore (40% of cash expenses). The details of cash expenses are provided below:

Table 18 - Cash Expenses **Rs. in Crores**

Expense Head	2016-17	2015-16	2014-15	Total
Administration	0.23	1.02	0.36	1.62
Other	0.41	0.59	0.97	1.97
Power Water & Fuel	0.01	0.00	0.02	0.03
Salaries (Includes employee reimbursement, staff welfare etc)	0.82	0.91	1.28	3.02
Travel	0.16	0.16	0.60	0.92
Total	1.63	2.70	3.24	7.56

Table 19 : Summary of Total Expenses Rs. in Crores

Expenses	Jun'15	Mar'16	Mar'17
Employee benefit expenses	19.83	16.55	21.02
Other Expenses	40.01	38.50	39.00
TOTAL	59.84	55.04	60.02

Table 20: Summary of Top 10 heads classified under Other Expenses
Rs. in Crores

Particulars	**Jun'15**	**Mar'16**	**Mar'17**
Power & Fuel Expenses	9.14	6.83	9.55
Factory Expenses	10.33	7.28	7.84
Brokerage & Commission	0.76	2.46	4.64
Repairs Maintenance	3.62	3.76	2.93
Rent ,Rates & Taxes	2.09	1.65	2.65
USFDA Fees	0.55	8.17	2.33
Legal & Professional Charges	3.44	2.01	2.31
Freight & Transportation Charges	1.53	1.94	1.57
Administrative Expenses	0.56	0.38	1.14
Directors Remuneration	1.13	0.50	0.66
TOTAL	**33.16**	**34.97**	**35.63**

7.2 It was observed that the substantial amounts of cash expenses constituted employee benefit expenses. The promoters, in their statement recording, admitted that contract workers and employee benefit expenses were paid in cash which was also confirmed by the statutory auditor. However, the lack of supporting documents for expenses in cash created doubt regarding the genuineness of the cash expenses incurred by the Company.

8. Mismatch in depreciation as per books and financial statements and non-maintenance of proper fixed asset register by the company.

8.1 It was observed that in case of depreciation for Mar'17, the figures did not reconcile with the books of accounts to the tune of Rs.4.31 Crore in Gross Block accumulated depreciation and Rs. 0.01 Crore in Net Block.

8.2 Further, inadequate details were maintained in Fixed Asset register. Fixed Asset register was furnished only for FY 2016-17. Many asset description stated in Fixed Asset register of 2016-17 were found to be generic in nature, like Cement & Steel (Rs. 29 Cr}, Construction work (Rs.2.66 Cr), WIP capitalized (Rs.142.34 Cr) etc. As the Company did not maintain Fixed Asset Register for FY 2014-15 and FY 2015-16, the total block wise additions made during the period could not be traced down to the individual asset level.

9. Non filing of ROC returns by parties under management control.

9.1 Parties under management control were incorporated between 1994 to 2010 and were related to Sharon since 2000 to 2007, thereby indicating that Sharon might have been engaged in trading transactions with these parties from much earlier times and not just in the past couple of years. Some of these parties had not filed their financial statements with the RoC after FY 2011-12. The details are as under:

Table 21 - List of Companies not filing ROC returns since FY 2011-12

Name of Company	Date of Incorporation	Related to Sharon since	Last filing of financials
Impressive Trading Pvt ltd	4-Dec-97	2000	2009-10
Idol Multitrade Pvt.Ltd.	12-Jan-07	2007	2011-12
SunrathTrading Pvt.Ltd.	18-Oct-94	2005	2009-10
Sovin Trading Ltd.	13-Nov-97	2005	2011-12
Devraj Multitrade Pvt.Ltd.	12-Jan-07	2007	2011-12

9.2 Non filing of returns by the parties under management control of Sharon raised doubt over their existence and operations and genuineness of the transactions with these companies and related entries in the financial statements of Sharon. It was noted that most of the transactions with these parties were in the year 2013-14 onwards (as stated above) for the purpose of inflation of revenues. The last returns filed by these parties with ROC pertained to FYs 2009-10 and 2011-12, which raised suspicion regarding the transactions entered by Sharon with these companies.

10. Lack of controls over recording of financial transactions

10.1 On review of books of accounts for different areas like receivables, payables, expenses, cash and bank payment, etc. it was noted that prudent accounting policies were not followed by the Company throughout the Review Period, as detailed below:

10.1.1 **Transactions not booked in books of account -** On ledger scrutiny, it was observed that few transactions were not recorded in particular financial year.

Table 22 - List of transactions not booked **Amount in Rs.**

Particulars	Opg. Bal (Jul' 14) (A)	Debit (B)	Credit (C)	Clg. Bal Mar' 17 (D)	Closing Stock (A+B-C=D)	Comments from client
Bellcross Industries	0.00	67,170	83,289	0.00	(16,119)	Purchase entry was missed
Bellcross Industries – V10	0.00	94,209	67,170	0.00	27039	Purchase entry was missed

10.1.2 **Incorrect opening balance carried forward from the previous period** – It was also observed that there were certain ledgers where the opening balance of the current year was not matching with the closing balance of the previous year.

Table 23 - Instances of mismatch between opening balance and closing balance during the period July 2011 to March 2017

Sr No	Entity Name	Period	Opg. Bal.	Debit	Credit	Closing Balance		Remarks
						books of accounts	working	
Amt in Rs.								
1	**Bellcross Industries**	Jul'14 – Mar'17	0	67,170	83,289	0.00	-16,119	Closing balance of 14-15 do not match with opening balance of 15-16
2	**Bellcross Industries -V10**	Jul'14 – Mar'17	0	94,209	67,170	0.00	27,039	Closing balance of 14-15 do not match with opening balance of 15-16
3	**Devraj Multitrade Pvt Ltd**	Jul'14 – Mar'17	0	14,18,56,815.5	14,32,29,682.2	0.00	-13,72,866.7	Closing balance of 14-15 do not match with opening balance of 15-16
4	**Enki Life Science Ltd**	Jul'14 – Mar'17	0	0	129,35,830	0.00	-1,29,35,830	Closing balance of 14-15 do not match with opening

								balance of 15-16
				Amt in Cr.				
1	**Kunal Enterprises**	Jul'11 - Jun'14	-1.85	20.53	-21.80	-4.28	-3.12	Closing balance of Jul11-Jun12 do not match with opening balance of Jul12-Jun13
2	**IFCI Factors Ltd**	Jul'11 - Jun'14	0	48.20	-62.19	0	-13.99	Closing balance of Jul11-Jun12 and Jul12-Jun13 do not match with opening balance of Jul12-Jun13 and Jul13-Jul14 respectively
3	**Mission Vivacare Limited**	Jul'11 - Jun'14	20.78	16.79	-3.99	-16.84	33.58	Closing balance of Jul12-Jun13 do not match with opening balance of Jul13-Jun14
4	**Sicom Ltd Andheri**	Jul'11 - Jun'14	10.00	32.48	-34.58	10.99	7.90	Closing balance of Jul11-Jun12 and Jul12-Jun13 do not match with opening balance of Jul12-Jun13 and Jul13-Jul14 respectively

10.1.3 Further, there were 8 bank accounts which had closing balance (as per the books of accounts) as on June 2015 of Rs.0.26 Crore. However, the opening balance for these accounts in July 2015 was taken as Rs.0.30 Crore, resulting into difference of Rs.0.03 Crore.

10.1.4 There were 5 general ledger accounts which were not actual bank accounts. However, these were grouped under bank balances in the financials. Opening balance in these accounts on July 2014 was Rs.0.65 crores and closing balance in March 2017 was 'Nil".

10.1.5 It was observed that during FY 2014-15, 7 bank accounts were adjusted against the suspense accounts, named as "Receivables". The Company informed that opening balance difference in bank accounts (as on 01-July-2014) was adjusted against the common "Receivables" suspense account.

10.1.6 There was a difference of Rs.2.23 Crore between the books of the Company and the statement received from India Factoring. The said amount was not recorded in the books by the Company. Hence there was understatement of unsecured creditors in the books by Rs. 2.23 Crore which amounts]ed to misrepresentation of financials.

10.2 The company stated in its reply that *“adjustments made to derive correct balance based on bank confirmation received”.* However, bank balance could not be adjusted through receivable suspense account, as the same was not a prudent accounting practice.

10.3 There are unusual indicators like adjustments of balances between party accounts, transfer of balance to suspense accounts, unreconciled opening and closing balances, inappropriate grouping of accounts and lack of controls over recording of transactions in the accounting system.

10.4 As per section 134(5)(e) of Companies Act, 2013, *“The Directors‘ Responsibility Statement referred to in clause (c) of sub-section (3) shall state that : the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.”* As per the Companies Act, 2013, provision of section 134(5)(e) are applicable to all listed entities irrespective of limit of borrowing. Also, since the above provision became effective from April 01, 2014, the same was applicable to the Company for FY 2014-15 and FY 2015-16.

10.5 The CFO of the Company gave a certification in Annual report of 2014-15 (Pg.35) and 2015-16 (Pg. 40) that *“We accept responsibility for establishing and maintaining internal controls for financial reporting and we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting.”* Hence, the certification provided by the CFO appears to be incorrect, given that the Company failed to implement internal control over financial reporting and thus violated Section 134(5)(e) of the Companies Act, 2013. The Company could not explain reasons for such mismatches as it stated in its reply that the relevant accounting data was maintained at alternate promoter office.

11. **Non maintenance of books of accounts by company at its registered office.**

11.1 The Company in its reply dated 26.08.2020 stated that the supporting documents with reference to preferential dividend warrants, unsecured loans, inter se adjustments of debtors and creditors, common debtors and creditors and prior period write off could not be provided as the same were maintained at alternate promoter office.

11.2 As per Section 128 (1) of the Companies Act, 2013, "*every company must prepare and keep its books of accounts and other relevant books, financial statements, and papers at its registered office.*

11.3 Reply was sought from Company vide email dated Oct 22,2020 to which the Company replied that "*since 8 March 2018 the affairs of the Company are being run by the Monitoring Agency, E&Y and the successful resolution applicants are working on completing the implementation and taking over the Company in accordance with the directions of the NCLT, NCLAT and the Supreme Court. As a result of the ongoing insolvency process, the erstwhile Management, Directors and Company Secretary are no more associated with the Company. Hence, we are currently neither in possession of any notice of intimation sent by the erstwhile management to ROC under Section 128(1) nor are in a position to confirm if any notice of intimation under Section 128(1) of Companies Act, 2013 was sent by the previous company secretary*".

11.4 Also, on perusal of the corporate announcements on BSE website, it was observed that the Company had not disseminated to the exchange the fact of maintaining books of accounts at alternate promoter office. Further, the said fact was confirmed by the Compliance Officer, Company VP- Finance and statutory auditor during the statement recording. Also the IRP provided emails wherein the data maintained at promoter's office for the period FY 2012 to FY 2016 was asked from the promoters, however, the same was not shared by the promoters with the IRP. Thus, by not maintaining books of accounts at its registered office, the Company violated Section 128(1) of the Companies Act, 2013.

12. **Non-conduct of audit committee meetings, non-discussion of financial statements, non-scrutiny of inter corporate loans, related party transactions in audit committee meetings and appointment of independent directors "who lack independency"**

12.1 As per the Annual Report of the Company for the FY 2011-12 to FY 2015-16, the details of meetings of the Audit Committee and attendance were as follows:

Table 24 – Details of meetings of audit committee and attendance

Name of directors	**Category**	**FY 2011-12**		**FY 2012-13**		**FY 2013-14**		**FY 2014-15**		**FY 2015-16**	
		H	A	H	A	H	A	H	A	H	A
V N Badoni*	Independent Director	5	5	5	5	4	4	NA	NA	NA	NA
Nivvedita Patil	Independent Director	5	5	5	5	4	4	4	4	3	3
Mohan P.Kala**	Non Executive director	5	5	5	5	4	4	4	4	3	2
Asif Rangwala	Independent Director	NA	NA	NA	NA	NA	NA	4	3	NA	NA
Madhav Sapre**	Independent Director	NA	NA	NA	NA	NA	NA	4	1	3	2
Lalit Mishra	Executive Director	NA	NA	NA	NA	NA	NA	NA	NA	3	3
Harish Palecanda	Independent Director	NA	NA	NA	NA	NA	NA	NA	NA	3	3

***Dr V.N. Badoni resigned as director on 15.05.2014.**
**** Mohan P.Kala and Madhav Sapre resigned w.e.f. 31.12.2015**
H : Held, A: Attended

12.2 Further the details of composition of the audit committee for the period FY 2011-12 to FY 2015-16 were as follows :

Table 25 : Composition of audit committee

Name of directors	**Category**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**	**2015-16**
V N Badoni*	Independent Director	Yes - Chairman	Yes - Chairman	NA	NA	NA
Nivvedita Patil	Independent Director	Yes	Yes	Yes - Chairman	Yes - Chairman	Yes - Chairman
Mohan P.Kala	Non Executive director	Yes	Yes	Yes	Yes	Yes
Asif Rangwala	Independent Director	NA	NA	Yes	Yes	NA
Lalit Mishra	Executive director	NA	NA	NA	NA	Yes

Harish Palecanda	Independent Director	NA	NA	NA	NA	Yes
Madhav Sapre	Independent Director	NA	NA	NA	Yes	NA

12.3 **Section 177 of the Companies Act 2013 : Audit Committee**

12.3.1 Section 177(2) of the Companies Act, 2013 states that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand the financial statements. Section 177, as per the Companies Act 2013 (Section 292A of Companies Act 1956), clearly states that duty of the audit committee specifically includes examination of the financial statement and the auditors' report thereon and approval or any subsequent modification of transactions of the company with related parties.

12.3.2 Further, Section 177 also states that the audit committee shall review the financial statements and have power to obtain professional advice from external sources to investigate into any matter. Thus, the independent directors, who attended the audit committee meetings, had the duty to review the financial statements and were expected to be persons with the ability to read and understand the financial statements (especially the chairman).

12.4 On perusal of the minutes of the audit committee meetings, as provided by the Company for FY 2011-12 to FY 2015-16, the following points were noted:

12.4.1 **Matters discussed**: In minutes of the meetings, it was stated that audited financial statements were placed before that audit committee, analysis of financial conditions of the company was done and related party transactions were discussed. However, the same was contrary to the details provided by independent directors in their statement recording.

12.4.2 **Discrepancy between annual report and minutes of meeting:** It was stated in the Annual Report that during FY 2011-12, 5 audit committee meetings were held. However, the minutes were provided only for 4 audit committee meetings. It was stated in the Annual Report for FY 2015-16 (page 34) that Mr. Harish Palecanda and Mr. Lalit Mishra attended 3 audit committee meetings. However, as per the minutes, they had only attended

1 meeting each. The Company stated in its reply that the same was a typographical error in the Annual report.

12.4.3 **Issues w.r.t date and signing of minutes:**

a) For FY 2016-17, the attendance sheet of audit committee minutes for meeting held on February 13,2017 was not signed by Dr. Nivedita Patil and Mr. Harish Palecanda. The minutes of audit committee meeting held on 29.08.2015 for FY 2015-16 were not signed by Mr. Madhav Sapre.

b) It was noted that the signature of Ms. Nivedita Patil on the minutes of audit committee meetings dated 30/05/2016, 11/08/2017, 10/11/2016 and 13/02/2017 were different from her signature on the previous minutes and her signature on the attested copy of identity proof provided by her during statement recording.

c) The minutes of meeting dated 10.11.2016 were signed dated 13.02.2016 whereas the minutes of meeting 13.02.2017 were not dated. Further, all the minutes of the audit committee from FY 2011-12 to FY 2015-16 were signed on the same date as the date of the meeting, which was highly unusual.

d) Further each page of the audit committee minutes was not initialed by the Chairman, as provided in Secretarial Standard 1 issued by ICSI. The minutes of meeting dated 28.08.2014 were only initialed, however, the last page was not signed (only initialed), which was not in line with the Secretarial Standard.

e) In the minutes of meeting dated 12/02/2016, only the copy of 1st page was provided, which was followed by the page of attendance sheet, instead of continuation of the minutes. The same was highly unusual since the documents were printed back to back.

f) In the minutes of meeting dated 12/11/2012, it was stated in point no 5. that *"The audit committee reviewed the management discussion and analysis of financial conditions and result of operations for the quarter ended December 31,2012 and the same to its satisfaction."* The same was highly unusual. Also, the same para was carried forward to minutes of the next meeting dated 14/02/2013.

12.4.4 The abovementioned observations, when considered holistically, indicated that the minutes of the meeting were a postscript. The same was also supported by the statements of independent directors and Compliance Officers that most of the audit committee meetings never happened and were only on paper.

12.5 For the FYs 2011-12 to FY 2016-17, Ms. Nivvedita Patil, Mr. V N Badoni, Mr. Asif Rangwala, Mr. Madhav Sapre, Mr. Harish Palecanda, Mr. Sanjay Shah and Mr. Drunal Shah were the independent directors. The educational qualifications of the independent directors were as follows:

Table 26: Educational qualification of independent directors

Sr. No.	Name of the ID	Educational Qualification
1.	Ms. Nivvedita Patil	MBBS - DOMS
2.	Mr. V N Badoni	M Sc (Chemistry), PHD
3.	Mr. Asif Rangwala	B Tech (Chemical Engineering)
4.	Mr. Madhav Sapre	B Tech (Chemical Engineering)
5.	Mr. Harish Palecanda	B. Com
6.	Mr. Sanjay Shah	MSc – Research – Organic Chemistry
7.	Mr. Drunal Shah	B. E, (Chemistry)

12.6 **Financial Literacy**: From the tables 28 and 29, it was observed that Dr. Nivedita Patil and Shri V N Badoni had attended majority the audit committee meetings and were chairperson of the audit committee. They had also confirmed in their statement that they were financially illiterate. Further, Mr. V N Badoni, being the Chairman of the audit committee, stated in his statement that he was unaware of being an independent director of the Company. He attended one-two audit committee meetings, and Mr Mohan Kala made him sign all the minutes including back dated minutes. As stated above, Section 177(2) of Companies Act 2013 states that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement. Mr Madhav Sapre and Harish Palecanda had also attended few of the audit committee meetings, as mentioned above. However, considering their educational background, the independent directors were not able to comprehend the financial irregularities in the financial statements and were not able to discharge their duty, as defined in Companies Act, 2013.

12.7 **Manner of appointment of Independent Directors**:

12.7.1 Appointment process of the independent directors has to be independent of the company's management. While selecting the independent directors, the board has to ensure that there is appropriate balance of skill, experience and knowledge in the board to enable the Board to discharge its functions and duties effectively. However, all the independent directors were associated with the Company and its promoters as college friends (Ms. Savita and Dr. Nivedita, Mr. lalit and Drunal Shah) or previous employees of the Company (V.N.Badoni and Madhav Sapre) or worked for marketing by conducting exhibitions together (Mr. Harish Palecanda and Mr. Sanjay Shah). Mr. Madhav Sapre was in charge of setting up the plants in Dehradun and Taloja for the Company. Further, Mr. V N Badoni was the relative of Mr Mohan Kala i.e cousin's husband (brother in law). In all cases, they were related to the Company and its promoters in personal capacities, as mentioned below :

Table 27

Sr. No.	Name of the ID	Nature of relation
1.	Ms. Nivvedita Patil	College friend of Ms. Savita Gowda
2.	Mr. V N Badoni	Relative of Mr Mohan Kala i.e cousin's husband (brother in law)
3.	Mr. Madhav Sapre	Past employee (in charge of setting up the plants in Dehradun and Taloja)
4.	Mr. Harish Palecanda	Worked for marketing by conducting exhibitions abroad together
5.	Mr. Drunal Shah	College friend of Mr. Lalit Mishra
6.	Mr. Sanjay Shah	Met promoters at trade exhibition

12.7.2 Hence, whether the appointment of abovementioned persons as independent directors served the purpose of providing equitable and independent judgment to the board, to secure and promote the interests of all stakeholders, especially minority investors and also to report concerns about any unethical behavior, suspected fraud or violation of code of conduct was questionable. From the statements of the independent directors, it was also understood that they were approached by the promoters to become independent directors and the promoters had ensured that the cooling off period of three years was complied with.

12.7.3 Hence, it was observed that the manner of selection of independent directors (ID) and maintenance of their databank (Section 150 of Companies

Act, 2013) was not complied with and the same was not followed in letter and spirit. Hence, the Company violated Sections 150 and 177 of the Companies Act, 2013.

12.8 **Sitting Fees** :The independent directors did not receive any sitting fees from the Company. The said fact was also confirmed by the statement of Compliance Officers and promoters during the statement recording. Thus, they were used by promoters to carry out misrepresentation of financials which could not be detected by them considering their educational background and their relationship with the promoters/ Company.

13. Analysis of share price of Sharon from April 2011 to March 2017

13.1 The share price (on BSE) of Sharon from April 2011 to March 2017 was as follows :

Table 28

Month	Closing Price (Amt. in Rs.)	Month	Closing Price (Amt. in Rs.)	Month	Closing Price (Amt. in Rs.)	Month	Closing Price (Amt. in Rs.)
Apr-11	166.5	Oct-12	363.5	Apr-14	44.9	Oct-15	22.1
May-11	168.7	Nov-12	344.5	May-14	45.1	Nov-15	20.3
Jun-11	192	Dec-12	385.3	Jun-14	48.2	Dec-15	27.6
Jul-11	262.2	Jan-13	360.05	Jul-14	76.25	Jan-16	20.85
Aug-11	285.45	Feb-13	351	Aug-14	70.55	Feb-16	16.5
Sep-11	291.5	Mar-13	346.25	Sep-14	69.35	Mar-16	10.95
Oct-11	330.85	Apr-13	344.65	Oct-14	63.9	Apr-16	12.71
Nov-11	295.6	May-13	340.3	Nov-14	56.55	May-16	10.52
Dec-11	296.8	Jun-13	330.8	Dec-14	33.7	Jun-16	12.54
Jan-12	320.7	Jul-13	310.9	Jan-15	26.55	Jul-16	11.89
Feb-12	353.6	Aug-13	296.25	Feb-15	17.75	Aug-16	8.96
Mar-12	357.3	Sep-13	304.45	Mar-15	17.95	Sep-16	10.91
Apr-12	448.35	Oct-13	291.3	Apr-15	18.65	Oct-16	11.58
May-12	444.3	Nov-13	289.5	May-15	16.75	Nov-16	9.79
Jun-12	440.15	Dec-13	386.3	Jun-15	12.55	Dec-16	9.24
Jul-12	422.2	Jan-14	354.35	Jul-15	17.19	Jan-17	8.94
Aug-12	407.85	**Feb-14***	**48.1**	Aug-15	16.95	Feb-17	8.89
Sep-12	365.35	Mar-14	42.3	Sep-15	17.5	Mar-17	8.08

*** Share split in ratio 5:1**

13.2 From the above table, it was observed that the price of the scrip of the Company had increased from Rs.166.5 in April 2011 to Rs.354.35 in Jan 2014, which was the period when the Company had inflated its revenue. The

Union Bank of India had sanctioned loan to Sharon on during 2012 through pledge of 2,27,13,538 shares (32.79% of the promoter holding). It was thus imperative for the company to maintain its share price to get the required amount of loan sanctioned which it did through manipulation of financials by showing inflated revenue by fake transactions with related parties, as mentioned in the Forensic Report. Also, any fall in prices would have led to the banks asking for more collateral for the said loan. Also, the stock split (in the ratio of 5:1) during Feb 2014, due to which the share price came down from Rs.354.35 to Rs.49.65, might have helped in making the tick size smaller and increase accessibility.

Other violations under LODR Regulations, 2015:

14. It was observed that there were delays in submission of financial statements, Quarterly compliance report and Statement of shareholding pattern to the exchanges, as required under the provisions of LODR Regulations, 2015. The details of the delay in submission of compliance certificate from CS are as under:

Table 29

Sr. No.	**Particulars**	**Violation of LODR 2015**	**Non submission**	**Late Submission**		
				For the period	**Due date**	**Submitted on**
1.	Quarterly compliance report on Corporate governance	Regulation 27(2)(a)	NA	Quarter ended March 2016	15.04.2016	16.04.2016
2.	Statement of shareholding pattern	Regulation 31(1)	NA	Quarter ended March 2016	21.04.2016	06.05.2016
3.	Financial Result	Regulation 33(3)	NA	June 2013	14.08.2013	30.08.2013
			NA	June 2014	14.08.2014	28.08.2014
			NA	Sept 2014	14.11.2014	06.01.2015
			NA	Dec 2014	14.02.2015	16.02.2015
			NA	June 2015	14.08.2015	29.08.2015
			NA	Mar 2016	15.05.2016	30.05.2016
4.	Compliance certificate – from practicing CS	Regulation 40 (9) and (10)	March 2011, September 2011 and March 2012	Sept 2014	Within one month of end of each half of FY	18.11.2014

Violation under SEBI (Depositories and Participants) Regulations, 1996:

15. Further, the Company violated 55A of SEBI (Depositories and Participants) Regulations, 1996 (**DP Regulations, 1996**) by delayed submission of Reconciliation of Share Capital Audit Report for quarter ended December 2011, which was done on 03.02.2012 to BSE.

Roles of the Noticees:

16. It was observed that Ms. Savita Satish Gowda (Noticee 1), Mr. Mohan P Kala (Noticee 2), Mr. Lalit Misra (Noticee 3) and Mr. Vijay Kirpalani (Noticee 4) were associated with the Company in the following capacity:

Table 30

Name of the noticee	Designation	Period
Ms. Savita Satish Gowda	Chairperson/ MD/ Promoter	FY 2011-12 to FY 2017-18
Mr. Mohan P Kala	Executive director/ Promoter/ CFO	FY 2011-12 to FY 2015-16
Mr. Lalit Misra	Executive director / Promoter/ CFO	FY 2011-12 to FY 2017-18
Mr. Vijay Kirpalani	Whole time director	FY 2011-12 to FY 2014-15

17. Noticees 1 to 3 were the decision makers and kingpin in the entire manipulation. Further, the following were observed regarding the roles of the Noticees:

17.1 Mr. Mohan Kala used to prepare and maintain all books of accounts in his office at Andheri and also attend the so called audit committee meetings. Further, the statutory auditor has also stated that all the accounts were maintained and prepared by Mr. Mohan Kala. Also the IRP also stated in his email that all the books of accounts were in possession of the promoters.

17.2 All the 3 promoters (viz. Mrs. Savita Gowda, Mr. Mohan Kala and Mr. Lalit Mishra) used to take all financial decisions, as confirmed by the Compliance Officers and independent directors in their statement recording.

17.3 Mr. Mohan Kala was the CFO of the Company during FYs 2011-12 and 2012-13. Mr. Lalit Mishra was the CFO of the company during FYs 2014-15 and 2015-16.

17.4 The composition of Board consisted of independent directors who were not truly independent. The promotors, along with whole time director Mr. Vijay Kirpalani (Noticee 4), themselves were in charge of all the business decisions and had used the independent directors as a tool to aid them in misrepresentation.

18. Shri Vijay Kriplani (Noticee 4) was independent additional director from October 16, 2006 and then, on April 01, 2007, he was appointed as a whole time director till 24 March 2015. He was also in charge of setting up the Dehardun plant and L6 plant at Taloja. The details of board meetings attended by him are as under:

Table 31

Financial Year	Number of Board meetings	Attended
2011-12	19	19
2012-13	14	14
2013-14	15	15
2014-15	20	15*

* Resigned in 2014-15

19. A company acts through its board of directors. The directors are responsible for all the acts of omission and commission by the company. It is the duty and responsibility of the directors to ensure that proper systems and controls are in place for financial reporting and to monitor the efficacy of such systems and controls. The directors of the listed companies have greater responsibility as they have access to inside information such as the financial position of the company, annual accounts, etc., and they take major decisions on behalf of the company, which affects the investors.

20. In view of the above, it was alleged that the Noticees had not exercised their duties with due and reasonable care. It was further alleged that the Noticees had violated Section 12A (a),(b) and (c) of SEBI Act,1992, Regulations 3(b), (c) and (d) and 4(1) and 4(2) (f) and (r) of the SEBI (PFUTP) Regulations, 2003, Regulations 4(1)(a),(b),(c),(e)(g),(h)& (i), Regulation 4(2)(f)(ii)(6)(7)(8), 4(2)(f)(iii)(3)(6) and (12), Regulation 27(2)(a), Regulation 31(1), Regulation 33(2)(a), Regulation 33(3), Regulation 40(9) and (10) and Regulation 48 of the LODR Regulations, 2015 read with Section 27 of SEBI Act,1992. Further they have violated Clause 49(1), Clause 49(D)(1) to (13), Clause 49(E) (1)and (2) of Listing Agreement read with Section 21 of Securities Contracts (Regulations) Act, 1956 (**SCRA, 1956**). It was also alleged that the Noticees had violated Regulation 55A of DP Regulations, 1996.

Show Cause Notice, Replies and Personal Hearing:

21. Accordingly, a common Show Cause Notice dated October 08, 2021 (**SCN**) was issued to the Noticees by SEBI calling upon them to show cause as to why suitable directions should not be issued against them and penalty not be imposed on them, under Section 11(1), 11(4), 11(4A), 11A, 11B(1) and 11B(2) read with

Section 15HA and 15HB of the SEBI Act, 1992 and Section 12A(1) & (2) read with Section 23H of SCRA, 1956 read with Rule 4 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and Rule 4 of SCRA (Procedure for Holding Inquiry and Imposing Penalties) Rules, 2005 for the aforesaid alleged violations.

22. The SCN was duly delivered to the Noticees. The Noticees responded to the SCN vide a common letter dated November 08, 2021 vide which they inter alia requested for inspection of various documents, before filing their replies. Accordingly, the Noticees were provided with an opportunity to inspect the relevant documents on December 06, 2021. However, the Noticees did not file any reply after the inspection. Subsequently, an opportunity of personal hearing was granted to the Noticees on May 13, 2022. However, the Noticees vide letter dated May 06, 2022 sought copy of Investigation Report. They did not attend the hearing on May 13, 2022. Subsequently, the Noticees were provided with copy of Investigation Report, vide email dated May 27, 2022. They were also granted time till June 10, 2022 to file their replies to the SCN. Subsequently, the Noticees vide their individual letters each dated June 10, 2022, filed their replies to the SCN. After that, the Noticees were granted an opportunity of personal hearing on July 18, 2022, which was attended by them through their authorized representative. Subsequently, vide email dated April 18, 2023, the Noticees were advised to submit additional written submissions. The Noticees, through their advocate, responded to the same vide email dated April 2023 and stated that they had nothing more to submit in this matter.

23. The Noticees vide their letters dated June 07, 2023 and June 10, 2022 have made submissions which are on similar lines. They have *inter alia* submitted the following:

    (a) Sharon is a company incorporated on 19th June, 1989 under the Companies Act, 1956, having its registered office at Raigad, Maharashtra. Initially, the Company was into the business of Intermediates and thereafter ventured into the business of bulk drugs, formulation plant, toxicology lab, etc.

(b) Ms. Savita Satish Gowda (Noticee 1) was the Managing Director of the Company from 1994 to 2017. Mr. Mohan P. Kala (Noticee 2) was a non-executive director of the Company from 1995 to December 31, 2015, after which he was not concerned with management of the Company but was merely a promoter of the Company. He was also CFO till FY 2012-13. Mr. Lalit Mishra (Noticee 3) was a director of the Company till March 30, 2018. He submits that he never used to prepare the books of the Company and was directly involved at the stage of finalization of the accounts.

(c) Mr. Vijay Kriplani (Noticee 4) was appointed as an independent director of Sharon from October 16, 2006 and was later appointed as a whole time director on April 01, 2007 until his resignation, which was on March 24, 2015. After his resignation, he was not concerned with the management or functioning of the Company. He has never held any shares of the Company including ESOP's. He was never involved in the accounting and financials of the Company and the same was done by the accounting team. Nor was he a signatory in any of the bank accounts of the Company or signed any documents on behalf of the Company.

(d) Sharon went under the Corporate Debt Restructuring in or around October 2014, which was later finalized in March 2015. Sharon was later admitted into insolvency in April 2017 and moratorium was declared under Section 14 of Insolvency and Bankruptcy Code, 2016. Pursuant to the aforesaid order, the IRP took over the management and business affairs of Sharon as a going concern basis to carry out the functions as mentioned in the Insolvency and Bankruptcy Code, 2016 and the rules and regulations made thereunder. Therefore, as on date the management and control of Sharon is not under the control of the Noticees. Noticees don't have complete documents or information to give a detailed response to the SCN.

(e) The SCN has been Issued in October 2021 i.e. after more than a period of 6 years since the resignation of several Noticees. Because of such inordinate delay in issuance of the SCN and the fact that the Company is now under insolvency (IBC 2016), the Noticees are not in a position to deal with the violations alleged in the SCN. Therefore, on this ground alone the present SCN should be quashed. In this regard, reliance is placed on the

Judgment passed by the Hon'ble Securities Appellate Tribunal in the matter of *Ashlesh Gunvantbhai Shah vs. SEBI (Appeal No. 169 of 2019, Date of decision 31st January, 2020).*

(f) It is an admitted position that the Forensic Audit was conducted by the Auditor based on incomplete information/documents and, therefore, considering the serious nature of allegations contained in the SCN, the findings of the Audit Report should not be relied upon. Today, neither the Auditor nor SEBI nor the Noticees are in possession of the complete documents relating to the Company. If such findings of the Forensic Audit which are based on incomplete information and documents are relied upon by SEBI while deciding the present matter, it would cause huge prejudice to the Noticees. The Noticees today are not in a position to file a detailed/comprehensive reply because of the inaccessibility of the relevant documents.

(g) In addition to the above, it is to be noted that at the time Sharon was undergoing the CIRP in October 2014, the banks had conducted a financial audit of the Company and had even conducted the audit of the stock of the Company. At that point of time, no discrepancies were found by the banks or the auditors appointed by them. Today, when the forensic audit of the company was conducted post the commencement of the CIRP process, several discrepancies have suddenly cropped up, which were earlier not there i.e. after a period of 3-4 years.

(h) Even in the FIR by the CBI on the complaint made by Union Bank against the Company, Vijay Kriplani's name is not mentioned.

(i) It has not even been alleged as to what exactly the manipulation was. Merely because the Forensic Auditor has alleged certain irregularities, the present SCN has been issued to the Noticees, without taking into consideration the fact as to whether they can be alleged to have violated various provisions of securities law or not.

(j) If Vijay Kriplani had the access to the Minutes of the Board Meetings of the Company, he would be able to show as to how he was not involved in the day-to- day management and functioning of the company. However, as he resigned from the Company on March 24, 2015, he does not have the access to minutes and neither does it form part of the SCN or the forensic audit report relied upon by SEBI. A higher degree of proof is required to prove the allegations made against the Noticees. The present SCN cannot be sustained on the basis of such vague allegations based on surmises and conjectures.

(k) As regards the allegation in the SCN relating to non-reporting of related party transactions in financial statements for Financial Year 2014-15 and 2015-16 and inflation of sales in absence of underlying supporting documents, Vijay Kriplani submits that he resigned from the Company on March 24, 2015 thereafter, he was not involved in the functioning and management of the company. Therefore, for the period post March 24, 2015, he cannot be held liable for anything.

(l) Further, the term 'related party' was defined under Regulation 2(zb) of the LODR Regulations, which in turn adopted the definition of 'related party' from sub section (76) of Section 2 of Companies Act, 2013 or under applicable accounting standards. As per the AS-18, the term 'related party' is defined as *“parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence.* Further, 'related party transactions' are defines as “a *transfer of resources or obligations between related parties, regardless of whether or not* a *price* is *charged.”* In the present matter, it has not been shown as to how the entities mentioned in the SCN were related parties as per AS 18.

(m) All the sales and purchases by Sharon were absolutely genuine and done in the normal course of business. Today, SEBI sitting as the Regulator cannot question the business/commercial sense of the board of the Company. The information provided by the Company at the relevant time did reflect the true and fair picture of the affairs of the Company to its investor.

(n) Further, Regulations 4(2)(a) and (b) of LODR Regulations casts an obligation on the listed company and not on the directors of the listed company. As the Company has not been made a party to the present proceedings, the proceedings against the directors are also liable to be dropped.

(o) The SCN alleges that the sales and purchases from the related parties were not commensurate with the corresponding receipts & payments and that these were just sham transactions to Inflate the corresponding items in the P&L. In this regard, it is to be noted that the concerned transactions related to the period July 2011 to March 2017. The Noticees are not in a position to justify or comment upon the said entries in the books of accounts in the absence of access to the relevant documents. As far as they can remember, all these transactions were genuine in nature. As regards Mr. Mohan P. Kala and Vijay Kriplani, they had resigned from the Company on December 31, 2015 and March 25, 2015 respectively. Therefore, for the period post their resignations, they are not in a position to respond to the violation alleged.

(p) The SCN has alleged incorrect reporting of assets in the financial statements of Sharon based on the incidence of fire on 03rd June, 2014. , it is to be noted that incorrect reporting of fixed assets in the financial statements related to the financial year 2014-15, 2015-16 and 2016-17. Similarly, the allegation with respect to misstatement of receivables and payables mentioned in the financial statements - prior period debtors written off without any supporting documentation or effort for recovery, common debtors and creditors and inter se adjustment of debtors and creditors pertained to the period July 2011 to March 2017. The Noticees submit that in absence of access to relevant documents, they are not in a position to comment on the said allegation. Hence, they cannot be held to be in violation in respect of the same.

(q) As regards allegation with respect to lack of documentation for loans from related parties (preference share warrants issued against it/netted off against debtor's balances), the Noticees submit that the non-compliance of provisions of AS-18 can be alleged against the listed company and not the directors. Further, Vijay Kriplani submits that he was not related to any of the entities mentioned under the said allegation. The loans were given from the period financial year 2011-12 to 2016-17 after proper documentation and due diligence and the company had disclosed the combined figures of the related party loan. If the intention of the Company would not have been to disclose, then why would the Company even disclose the combined figure.

(r) As regards the allegation with respect to expenses incurred in cash not backed by appropriate supporting documents, the said allegation relates to the period financial years 2014-15, 2015-16 and 2016-17 and as on date the Noticees are not in the capacity to justify or comment upon these expenses in the books of accounts. As far as they can remember, all these expenses were genuine in nature. Mr. Lalit Mishra and Mr. Vijay Kriplani submit that they were not involved in the preparation of the books of accounts of the Company.

(s) As regards the allegation with respect to mismatch in depreciation as per books and financial statements and non-maintenance of proper fixed asset register by the Company, the Noticees submit that the financials of the company were prepared by the accounting team and were later audited by the Statutory Auditor. As on date, the Noticees are not in the capacity to justify or comment upon these financial entries. As far as they can remember, true and correct financials were recorded in the books of accounts and financial statements.

(t) As regards the allegation of non-filing of ROC returns by parties under management control, the Noticees cannot be held in violation for the said allegation which does not even relate to Sharon. If some unrelated or third company does not file their ROC return, the Noticees cannot be held in violation.

(u) Regarding the allegation with respect to lack of controls over recording of financial transactions, the Noticees submit that the Company followed prudent accounting policies. The Noticees are not aware as to how certain discrepancies / mismatch were found by SEBI. Presently, they are not in a position to comment on the same as the records of the Company are not available with them. Also, it was the accounting department of the Company which prepared the financials of the Company.

(v) As regards alleged non-maintenance of books by the Company at its registered office, the Noticees submit that the books of accounts were in fact maintained by the Company at its registered office and therefore the Company was not in violation of Section 128(1) of Companies Act, 2013. It may also be noted that the Company was being operated from three different offices. In the year 2015, the Andheri office of the company was shut down and all the records were transferred by the old management to the new management. The Noticees are not aware as to why the records were later not maintained at the registered office of the Company or why the IRP was unable to share the records maintained by the Company with SEBI. Further, the violation of provisions of Companies Act Is outside the scope of SEBI's jurisdiction.

(w) Regarding the allegations pertaining to non-conduct of audit committee meetings, non-discussion of financial statements, non-scrutiny of Inter corporate loans, related party transactions in audit committee meetings and appointment of independent directors 'who lacked independency', the Noticees deny that the minutes of the meeting were a 'postscript'. The meetings were held timely and were attended by the board members. The Noticees are not aware as to why certain other directors of the Company made a statement that 'audit committee meetings never happened and were only on paper'. If at all SEBI is relying on statements given by such persons, the Noticees should be given an opportunity to cross examine these entities, if so desired.

(x) As regards the allegation with respect to the appointment of independent directors in the Company, Noticees submit that the appointments were done after following due process of law. The Company was in the business of pharmaceuticals and therefore the independent directors were mostly from the science and biology background. In the SCN, only the Company has been alleged to have violated Section 150 and 177 of Companies Act, 2013. Hence, the Noticees cannot be penalized.

(y) As regards the allegation that the Company inflated its revenue during the period April 2011 to January 2014 maintained its share price my manipulating its financials to avail loan and did stock split to increase accessibility, the Noticees submit that it is not necessary that a higher sales figure will increase price of the scrip or would lead to sanction of higher amount of loan. Further, the SCN has failed to show as to how the Noticees participated or was aware of such activities. The allegation in the SCN are based merely on conjectures and surmises.

(z) As regards the allegation of violation of Regulations 27(2)(a), 31(1) and 33(3) of LODR Violations and Regulation 55A of DP Regulations, 1996, the same pertain to obligations of the Company and not directors of the Company.

(aa) The SCN does not mention the precise allegations against the Noticees other than mentioning that they were directors and should have exercised their duties with due and reasonable care.

(bb) The SCN fails to specify as to how the Noticees had violated the various provisions of securities law.

(cc) As regards the allegation that Noticees 1 to 3 were the decision makers and the kingpin in the entire manipulation, the Noticees submit that the financials of the Company were prepared by the accounting team and all the financial decisions were taken by the complete Board of Directors. The Noticees were not involved in any manipulation.

(dd) As regards the applicability of Section 27 of the SEBI Act, 1992, it may be noted that during the period covered by investigation, only offences by companies were covered under the said provisions and hence, the same cannot be applied to the Noticees.

Consideration of issues and findings:

24. I have examined the allegations against the Noticees mentioned in the SCN, the Noticees' replies in respect of the allegations and other material available on record.

25. I note that the facts and observations mentioned in the SCN reveal several irregularities / lapses which are summarized below:

(a) The Company's sales and purchase transactions during the Investigation Period were not backed by proper documentation (proof of movement of goods, agreements with vendors and customers, balance confirmations from customers etc.), which indicates that the sales and purchase transactions were not genuine and the reported figures in respect of them were inflated.

(b) Out of the top 5 debtors and top 5 creditors of the Company for the period July 2014 to March 2017, 4 debtors and 4 creditors were connected to the Company (being parties under management control). The sales to and purchases from these connected parties during the said period was more than 60% of the trading sales and purchases of the Company. Provisions of Regulation 4(a) and (b) of the LODR Regulations *inter alia* require a listed entity to ensure preparation and disclosure of information and financial statements in accordance with applicable standards of accounting and financial disclosure. However, the abovementioned related party transactions were not disclosed in the financial statements of the Company for FYs 2014-15 and 2015-16 in accordance with 'AS 18 – Related Party Disclosures'.

(c) The trading sales of the Company, which amounted to Rs.697.74 Crores during July 2014 to June 2015, came down to Rs.138.80 Crores during July 2015 to March 2016 and to Nil during April 2016 to March 2017. Similarly, the trading purchases, which totaled Rs.700.20 Crores during July 2014 to June 2015, came down to Rs.148.52 Crores during July 2015 to March 2016 and to Nil during April 2017 to March 2017. Since majority of such sales and purchases were to / from related parties and these transactions were not back with sufficient documentation, the same indicated that the trading sales and trading purchases reported by the Company for the period July 2014 to March 2016 were inflated and misleading. Similarly, for the transactions during July 2011 to June 2014, adequate supporting documents were absent.

(d) Even the non-trading purchases and sales reported in the financial statements during the Investigation Period did not have adequate supporting documentation. Hence, the related figures reported in financial statements were inflated and misleading.

(e) During June 2014, there was a fire incident in one of the plants of the Company, subsequent to which there was decrease in sales and purchase figures of the Company. However, the said decrease was not commensurate with the loss of stock and capital due to fire incident mentioned in the Director's Report (FY 2013-14). There was no consistency between the figures mentioned in the financial statements and Director's Report for FYs 2013-14 and 2014-15. As the majority of trading transactions with connected parties were executed during the FY 2013-14, the same corroborated the inference that the purchases and sales reported for the said year were fake / inflated.

(f) During the investigation Period, the cash flows from trading activities of the Company did not match with high volumes of trades recorded in the books of accounts. In many instances, in respect of purchases and sales reported in the books, the corresponding receipts and payments were either minuscule or absent, which indicated that the reported sales and purchases were inflated through fictitious transactions where there were no actual receipts or payments. Further, in many instances, the sales and purchases recorded were minuscule as compared to the receipts and payments. The Company could not provide the supporting documents for such transactions and explanation for the mismatch between the reported sales and purchases and the corresponding receipts and payments.

(g) In the financials of FY 2013-14, the Company had stated that fire at its premises on June 03, 2014 had resulted into plant and machinery loss (on WDV basis) of Rs. 14.59 Crore. However, Fixed Asset Schedule in financials of FY 2013-14 revealed that there was deletion of assets amounting to Rs.5.55 Crore only (on WDV basis) and there was no major asset deletion during the Investigation Period. Accordingly, there was overstatement of fixed assets by Rs. 9.04 crores. Thus, there was inflation of reserves and surplus by Rs. 9.04 crore, which amounted to misrepresentation in the financial statements of FY 2013-14.

(h) The Company had written off assets of Rs. 4.30 Crore (on gross block basis) during the year 2016-17, on account of loss by fire. However, since the fire had occurred in the premises on June 2014, the assets should have been written off during the year 2014-15 (July 2014 - June 2015) and not FY 2016-17. Thus, fixed assets mentioned in the financials for FY 2014-15 and FY 2015-16 were overstated by Rs. 4.30 Crore and did not reflect the true and fair picture, as per AS 10 - Fixed Assets. Further, documentary evidences for various additions and deletions of fixed assets, including some purchased from a related party, were not furnished.

(i) The Company could not furnish agreements and supporting documents pertaining to Inter Corporate Deposits and Loans from related parties. Further, the documents pertaining to conversion of unsecured loans into preferential warrants and further into equity shares to related parties were also not furnished.

(j) The Company had adjusted its liabilities (unsecured loans from related parties) against outstanding debtor balances of an entity (Sunrath Trading Pvt. Ltd.) which was a party under management control. As no supporting documents were furnished for carrying out such adjustments, the same raised doubts about the amount of unsecured loans and the debtor balances mentioned in the financial statements and whether the sale transactions with debtors were real. Further, the Company, by reporting Related Party Transactions as a combined figure as against mentioning individual transaction details, had failed to comply with Para 23 of AS 18 – Related Party Disclosures.

(k) The Company had written off receivables totaling Rs.245 Crores without providing any reasons for such write-offs. There was no documentation furnished regarding follow up process for collections and legal action taken against the debtors. The same indicated that the revenues of the Company were inflated. Further, there was se adjustment of debtors and creditors.

(l) Expenses incurred in cash were not backed by appropriate supporting documents.

(m) There was mismatch in depreciation as per books of accounts and financial statements. Further, the details of fixed assets were not adequately maintained.

(n) Some of the parties under management control of Sharon, which were engaged with trading transactions with Sharon for many years, had not filed their financial statements with RoC after FY 2011-12. The same raised doubts about their existence and the genuineness of the transactions with them.

(o) The Company did not follow prudent accounting policies while recording financial transactions. Few transactions were not recorded in particular financial years. Further incorrect opening balances were carried forward from previous periods. As the Company failed to implement internal control over financial reporting, the CFO certification in Annual Report of 2014-15 and 2015-16 appeared to be incorrect and in violation of Section 134(5)(e) of the Companies Act, 2013.

(p) The Company failed to maintain its books of accounts at its registered office, in violation of Section 128(1) of the Companies Act, 2013.

(q) A number of discrepancies were observed with respect to minutes of the meetings of Audit Committee of the Company, which indicated that such meetings never happened and the minutes of such meetings were postscript. Further, the independent directors of the Company lacked financial literacy and the ability to read and understand financial statement. Further, the independent directors of the Company were found to be related to the Company and its promoters in personal capacities.

(r) Further, there were violation of the provisions of LODR Regulations, 2015 and DP Regulations, 1996 due to non-submission / delayed submission of various reports.

26. The relevant extract of the legal provisions, as they were applicable at the relevant time, allegedly violated by the Noticees, are provided below:

LODR Regulations, 2015

Principles governing disclosures and obligations.

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

(a) Information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosure.

(b) The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.

(c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.

(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.

(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.

CHAPTER II

PRINCIPLES GOVERNING DISCLOSURES AND OBLIGATIONS OF LISTED ENTITY

Principles governing disclosures and obligations.

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.

(f) Responsibilities of the board of directors: The board of directors of the listed entity shall have the following responsibilities:

(ii) Key functions of the board of directors-

(6) Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.
(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
(8) Overseeing the process of disclosure and communications.

(iii) Other responsibilities:
(3) Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.
(6) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.
(12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.

Other corporate governance requirements.
27. (2) (a) The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within fifteen days from close of the quarter.

Holding of specified securities and shareholding pattern.
31. (1) The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding pattern separately for each class of securities, in the format specified by the Board from time to time within the following timelines –
(b) on a quarterly basis, within twenty one days from the end of each quarter;

Financial results.
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.

Financial results.

33. The listed entity shall submit the financial results in the following manner:

(3) (a) The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange within forty-five days of end of each quarter, other than the last quarter.

Transfer or transmission or transposition of securities.

40. (9) The listed entity shall ensure that the share transfer agent and/or the in-house share transfer facility, as the case may be, produces a certificate from a practicing company secretary within one month of the end of each half of the financial year, certifying that all certificates have been issued within thirty days of the date of lodgement for transfer, subdivision, consolidation, renewal, exchange or endorsement of calls/allotment monies.

(10) The listed entity shall ensure that certificate mentioned at sub-regulation (9), shall be filed with the stock exchange(s) simultaneously.

Accounting Standards.

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

DP Regulations, 1996

Audit.

55A.(1) Every issuer shall submit audit report on a quarterly basis, starting from September 30, 2003, to the concerned stock exchanges audited by a qualified Chartered Accountant or a practicing Company Secretary, for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital.

(2) The audit report under sub-regulation (1) shall also give the updated status of the register of members of the issuer and confirm that securities have been dematerialized as per requests within 21 days from the date of receipt of requests by the issuer and

where the dematerialization has not been effected within the said stipulated period, the report shall disclose the reasons for such delay.

(3) The issuer shall immediately bring to the notice of the depositories and the stock exchanges, any difference observed in its issued, listed, and the capital held by depositories in dematerialised form.

SEBI Act, 1992

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

12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

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

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

PFUTP Regulations, 2003

CHAPTER IIPROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICESRELATING TO THE SECURITIES MARKET

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(b) useoremploy,inconnectionwithissue,purchaseorsaleofanysecuritylistedor 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) employanydevice,schemeorartificetodefraudinconnectionwithdealinginor issue of securities which are listed or proposed to be listed on a recognized stock exchange;

(d) engageinanyact,practice,courseofbusinesswhichoperatesorwouldoperateas fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

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

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

27. I note that the Noticees have denied the allegations mentioned in the SCN against them. However, I note that their contentions and explanations, rather than dealing with the allegations on merit, are largely generic in nature.

28. The Noticees, at the outset, have contended that the proceedings ought to be set aside on the ground of delay in initiation of proceedings. In this regard, I note that though the violations alleged in the SCN pertain to the period July 01, 2011 to March 31, 2017, the said violations came to light only after the Forensic Audit Reports dated December 2017 and March 2019 were submitted by the Forensic Auditor to SEBI, subsequent to which the SCN dated October 08, 2021 was issued to the Noticees. Since the irregularities have come to light much after their occurrence, the Noticees' contention regarding delay does not stand.

29. The Noticees have contended that as the Forensic Audit has been conducted by the Auditor based on incomplete information and documents, the findings of the

same should not be relied upon. In this regard, I note that adverse inferences against the Company have been drawn on the basis of observations and findings in the Forensic Audit Reports which have referred to transactions / instances where, in most cases, the Company failed to furnish various supporting documents and evidences. For example, the Company could not substantiate its trading and non-trading transactions, as it failed to furnish proof of movement of goods, purchase and sale agreements, Invoice, GRN etc. Once the prima facie irregularities were established by the Forensic Audit Report, the burden of proof had shifted to the Company and the Noticees to refute the findings of the Forensic Audit Report with credible documentary evidences. In such circumstances, even though the Forensic Audit Report itself refers to unavailability of various documents, the findings of such report cannot be dismissed as it was the Company which failed to furnish the necessary supporting documents. The Company and its directors cannot be allowed to take advantage of their own shortcoming in making available the relevant documents. Thus, the Noticees' contention that Forensic Audit Report should not be relied upon cannot be accepted.

30. The Noticees, in respect of most of the allegations, have submitted that they, in the absence of access to relevant documents, are not in a position to comment on these allegations and hence, they cannot be held to be in violation. However, the said stance of the Noticees cannot be accepted. In respect of the instant proceedings, the onus is on the Noticees to obtain the necessary documents from the relevant sources and furnish them to refute the allegations mentioned in the SCN. The Noticees have not even demonstrated that any effort was made by them to obtain the relevant documents. In view of the same, the Noticees are liable to suffer the drawing of adverse inferences against them.

31. The Noticees, in respect of related party transactions referred to in the SCN, have contended that it has not been shown in the SCN as to how certain entities mentioned in the SCN were related parties, as per AS 18. In this regard, I note that the Investigation Report of SEBI (on pages 7-10), which was forwarded to the Noticees vide email dated May 27, 2022, contains a list of 18 parties under

management control, along with the details of their relationship with the Company / its promoters / management. Thus, the Noticees contention that it has not been shown as to how certain entities were related parties, does not sustain.

32. The Noticees have contended that the SCN does not mention the precise allegations against them other than mentioning that they were directors and should have exercised their duties with due and reasonable care. Further, the Noticees, in respect of certain violations alleged in the SCN [Regulations 27(2)(a), 31(1), 33(3) of the LODR Regulations, 2015; Regulation 55A of DP Regulations, 1996 etc.], have contended that the said violations pertained to the Company and not the directors of the Company. Further, they have also contended that the applicability of Section 27 of the SEBI Act, 1992 is not attracted in this case, since during the period covered by investigation, only offences were covered under the said provision. Hence, the same cannot be applied to the Noticees.

33. In this regard, I note that the lapses / irregularities mentioned in the SCN clearly indicate *inter alia* that the Company, in general, had indulged in recording fictitious transactions and inflated revenue, accounting manipulation, was not following prudent and prescribed accounting norms and lacked internal financial controls. Further, the individual roles of the Noticees, which facilitated the said irregularities, through their acts and omissions, have already been pointed out in the SCN. It has been pointed out in the SCN that the Noticees were directors of the Company at the relevant time when these lapses / irregularities had taken place (their post and tenure in the Company are mentioned in Table 30 under para 16 above). Noticee 1 to 3 were also promoters of the Company and they, along with Vijay Kriplani, were managing the day to day affairs of the Company. Mohan P Kala and Lalit Mishra had also acted as the CFO of the Company for relevant periods and were also part of the Audit Committee during the Investigation Period. It has also been stated that Mohan P Kala used to prepare and maintain all books of accounts and attended the purported audit committee meetings. Thus, the roles of the Noticees has clearly been outlined in the SCN.

It has been contended by Mohan P. Kala and Vijay Kriplani that they had resigned as directors in March 2015 and December 2015 respectively. However, it is noted that the various irregularities, cited in the SCN, spanned the period from July 01, 2011 to March 31, 2017, which overlapped with their tenures as directors. Further, Vijay Kriplani had attended all the board meetings during the FYs 2011-12 to 2014-15 till his resignation, as evident from Table no. 31 under para 18 above. Accordingly, they remain accountable for the acts and omissions committed during their directorship.

34. A company being a juristic person cannot act on its own. It acts through its directors and other key managerial persons who manage its day to day functions. The directors of a company, who manage the affairs of a company, cannot evade accountability in respect of irregularities found against a company. Thus, independent of the provisions contained in Section 27 of the SEBI Act, 1992, the Noticees, under general principles of corporate law, remain vicariously liable for the acts of the Company, since they were the persons managing the affairs of the Company. Further, the term 'Offence, mentioned in pre-amended Section 27 of the SEBI Act, 1992, in the absence of definition of such term in the SEBI Act, 1992 cannot be said to be limited in scope. It also included 'contraventions' of the provisions of SEBI Act, 1992 and the regulations framed thereunder. Thus, the Noticees' contention in this regard do not sustain.

35. Further, apart from the violations for which the Noticees are vicariously liable, there are allegations in the SCN which directly apply to the directors / CEOs, CFOs and make them accountable for ensuring various compliances. I note that Regulation 4(2)(f)(ii)(6), (7), (8), Regulation 4(2)(f)(iii)(3), (6), (12) and Regulation 33(2)(a) of the LODR Regulations, 2015 which are alleged to have been violated, directly apply to the directors / CEO / CFO. I note that the abovementioned provisions lay down various responsibilities on the directors of a listed entity, which include *inter alia* monitoring and managing conflict of interest in related party transactions, ensuring integrity of accounting and financial reporting systems, overseeing the process of disclosures and communications, acting in good faith with due diligence and care and in the best interest of the listed entity,

maintaining high ethical standards etc. However, the irregularities revealed by the Forensic Audit, which still remain unexplained on part of the Noticees, indicate that the Noticees had failed to discharge their responsibilities under provisions of law mentioned above. Thus, apart from being vicariously liable for the violations found against the Company, the Noticees are also independently and directly liable for failing to discharge their functions and responsibilities under the provisions of law mentioned under the preceding paragraph, which led to various irregularities committed by the Company.

36. Accordingly, I hold that the Noticees have violated the provisions of Regulations 4(1)(a),(b),(c),(e)(g),(h)& (i), Regulation 4(2)(f)(ii)(6)(7)(8), 4(2)(f)(iii)(3)(6) and (12), Regulation 27(2)(a), Regulation 31(1), Regulation 33(2)(a), Regulation 33(3), Regulation 40(9) and (10) and Regulation 48 of the LODR Regulations, 2015 read with Section 27 of SEBI Act,1992 and Regulation 55A of the DP Regulations, 1996.

37. Apart from the above, it has also been shown in the SCN that during the period when the Company had published manipulated financial statements with inflated revenue, the shares of the Company were trading at very high prices (the price had increased from Rs.166.50 to Rs.354.35, pre-split, during April 2011 to January 2014). However, the scrip price dropped to Rs.8.08, post-split, in March 2017, indicating that the price was artificially propped up by publishing manipulated financial statements in order to induce investors to trade and invest in the shares of the Company. Since the manipulation of financial statement and publication thereof had the effect of inducing the investors to invest in the shares of the Company, which amounted to fraudulent and unfair trade practices, the Noticees by aiding and facilitating the same through their acts and omissions have also violated the provisions of Section 12A (a), (b) and (c) of the SEBI Act, 1992 and Regulations 3(b), (c) (d), 4(1) and 4(2)(f)&(r) of the PFUTP Regulations, 2003.

38. Apart from the above, the Noticees are also alleged to have violated Clause 49(I), Clause 49(II)(D)(1) to (13), Clause 49(II)(E) (1) and (2) of Listing Agreement read

with Section 21 of SCRA, 1956. In this regard, I note that Clause 49(I) of the Listing Agreement *inter alia* deals with composition of the Board of Directors and conditions for appointment of independent directors. Further, Clauses 49(II)(D)(1) to (13) and 49(II)(E)(1) & (2) deal with Role of Audit Committee and Review of Information by Audit Committee. Considering that the Company has failed to adhere to the provisions regarding appointment of unrelated persons as independent directors and the Audit Committee failed to discharge its duties properly, I hold that the Noticees have violated the said provisions of Listing Agreement, which makes them liable for monetary penalty under Section 23H of the SCRA, 1956.

39. I note that the violation of the abovementioned provisions of SEBI Act, 1992 and PFUTP Regulations, 2003 make the Noticees liable for monetary penalty under Section 15HA of the SEBI Act, 1992. Further, the violation of the abovementioned provisions of LODR Regulations, 2015 and DP Regulations, 1996 by the Noticees make them liable for monetary penalty under Section 15HB of the SEBI Act, 1992. I note that before imposing the monetary penalty under Sections 15HA and 15HB of the SEBI Act, 1992 and Section 23H of the SCRA, 1956, the factors under Section 15J of the SEBI Act, 1992 and Section 23J of the SCRA, 1956 have to be considered. In this regard, I note that from the material on record it is not possible to quantify the amount of disproportionate gain or unfair advantage made by the Noticees or the amount of loss caused to the investors as a result of the defaults. Since the violations have spanned over multiple quarters / financial years, the same indicates that the violations are repetitive in nature. I have considered the same while deciding the monetary penalties to be imposed on the Noticees.

40. Further, since the violations are very serious in nature and call for regulatory intervention, the Noticees, apart from being imposed with monetary penalty, also deserve to be kept out of the securities market for certain period. Accordingly, I find that it is a fit case for issuing appropriate directions.

Directions:

41. In view of the foregoing, I, in exercise of the powers conferred upon me in terms Sections 11, 11(4), 11(4A), 11B(1) and 11B(2) read with of Section 19 of the SEBI Act, 1992 and Section 12A (1) & (2) of the SCRA, 1956, hereby direct the following:

(a) The Noticees are hereby restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities, either directly or indirectly, in any manner whatsoever, for a period of 3 years from the date of this order.

(b) The Noticees are restrained from holding any position of Director or key managerial personnel in any listed company or any intermediary registered with SEBI, or associating themselves with any listed public company or a public company which intends to raise money from the public or any intermediary registered with SEBI, in any capacity, for a period of 3 years from the date of this Order.

(c) The Noticees are allowed to liquidate any open positions in derivatives that they might have, within a period of 3 working days from the date of this order.

(d) The Noticees are hereby imposed with monetary penalties under Sections 15HA and 15HB of the SEBI Act, 1992 and Section 23H of the SCRA, 1956, as per the details mentioned in the Table below:

Sl. No.	**Name of the Noticee**	**Penalty imposed under Section 15HA of the SEBI Act, 1992**	**Penalty imposed under Section 15HB of the SEBI Act, 1992**	**Penalty imposed under Section 23H of the SCRA, 1956**	**Total penalty to be paid**
1.	**Savita Satish Gowda**	**Rs.20,00,000**	**Rs.5,00,000**	**Rs.2,00,000**	**Rs.27,00,000**
2.	**Mohan P. Kala**	**Rs.20,00,000**	**Rs.5,00,000**	**Rs.2,00,000**	**Rs.27,00,000**
3.	**Lalit Mishra**	**Rs.20,00,000**	**Rs.5,00,000**	**Rs.2,00,000**	**Rs.27,00,000**
4.	**Vijay Kriplani**	**Rs.20,00,000**	**Rs.5,00,000**	**Rs.2,00,000**	**Rs.27,00,000**

(e) The Noticees shall remit / pay the amount of penalty mentioned against their respective names in the Table under sub-para (d) above, within 45 days of receipt of this order by using the undermentioned pathway: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairman/ Members → Click on PAY NOW or by using the web link: https://siportal.sebi.gov.in/intermediary/AOPaymentGateway.html. The Noticees shall forward the details/confirmation of penalty so paid through e-payment to "The Division Chief, CFID-SEC2, Securities and Exchange Board of India, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra-Kurla Complex, Bandra (E), Mumbai -400 051" and also to e-mail id: tad@sebi.gov.in in the format given in the table below.

1. Case Name	
2. Name of payee:	
3. Date of payment:	
4. Amount paid:	
5. Transaction no.:	
6. Bank details in which payment is made:	
7. Payment is made for : (like penalties/ disgorgement/ recovery/settlement amount and legal charges along with order details)	

42. This order comes into force with immediate effect.

43. A copy of this order shall be sent to the Noticees, recognized Stock Exchanges, Depositories and Registrar and Transfer Agents for information and compliances.

Place: Mumbai **ASHWANI BHATIA**

Date: May 31, 2023 **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA