

National Stock Exchange of India

Circular

Department: Investigation	
Download Ref No: NSE/INVG/63529	Date: August 23, 2024
Circular Ref. No: 365/2024	

To All NSE Members,

Subject: Final Order in the matter of Reliance Home Finance Limited

This is with reference to NSE Circular No. NSE/INVG/51304 dated February 11, 2022 in respect of SEBI order No. WTM/SM/CFID/57/2021-22 dated February 11, 2022 wherein SEBI has restrained following entities from accessing the securities market from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, till further directions.

Sr. no.	Name of the Noticee	PAN
1	Reliance Home Finance Limited	AAECR0305E
2	Anil D. Ambani	AADPA3703D
3	Amit Bapna	AAYPB9659A
4	Ravindra Sudhalkar	AGGPS1926B
5	Pinkesh R. Shah	ABAPS2169R

SEBI vide email dated August 22, 2024 has forwarded SEBI Order No. WTM/AN/CFID/CFID_1/30660/2024-25, wherein SEBI has restrained following entities from accessing the securities market, directly or indirectly and prohibited from buying, selling or otherwise dealing in the securities market, directly or indirectly in any manner whatsoever, for a period for a period mentioned therein.

Sr. no.	Name of the Noticee	PAN	Period of Debarment
1	Reliance Home Finance Limited	AAECR0305E	6 Months
2	Anil D. Ambani	AADPA3703D	5 Years
3	Amit Bapna	AAYPB9659A	5 Years
4	Ravindra Sudhalkar	AGGPS1926B	5 Years

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5	Pinkesh R. Shah	ABAPS2169R	5 Years
6	Adhar Project Management and Consultancy Private Limited	AAHCA1962F	5 Years
7	Indian Agri Services Private Limited	AACCI7169M	5 Years
8	Phi Management Solutions Private Limited	AAECP7111Q	5 Years
9	Arion Movie Productions Pvt. Ltd.	AARCA6056E	5 Years
10	Citi Securities and Financial Services Private Limited	AACCC9559M	5 Years
11	Deep Industrial Finance Limited	AAACV1614N	5 Years
12	Azalia Distribution Private Limited	AAECB2295B	5 Years
13	Vinayak Ventures Private Limited	AADCV3723H	5 Years
14	Gamesa Investment Management Private Limited	AADCG2093F	5 Years
15	Medybiz Private Limited	AACCM0084D	5 Years
16	Hirma Power Limited	AABCH3229C	5 Years
17	Tulip Advisors Private Limited	AADCT0485A	5 Years
18	Mohanbir Hi-Tech Build Private Limited	AAJCM6196R	5 Years
19	Netizen Engineering Private Limited	AABCR7570C	5 Years
20	Crest Logistics and Engineers Private Limited (Now Known As CLE PRIVATE LIMITED)	AACCR7266A	5 Years
21	Reliance Unicorn Enterprises Private Limited	AAACC2436P	5 Years
22	Reliance Exchange next Limited	AABCR7567D	5 Years
23	Reliance Commercial Finance Limited	AABCR6898M	5 Years
24	Reliance Cleangen Limited	AAACR2664L	5 Years
25	Reliance Business Broadcast News Holdings Limited	AABCU0804C	5 Years
26	Reliance Big Entertainment Private Limited	AAFCA6658L	5 Years

The detailed order is available on SEBI website (<https://www.sebi.gov.in/enforcement.html>).

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: Final Order in the matter of Reliance Home Finance Limited

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**

In respect of:

Sr. no.	Name of the Noticee	PAN
1	Reliance Home Finance Limited	AAECR0305E
2	Anil D. Ambani	AADPA3703D
3	Amit Bapna	AAYPB9659A
4	Ravindra Sudhalkar	AGGPS1926B
5	Pinkesh R. Shah	ABAPS2169R
6	Adhar Project Management and Consultancy Private Limited	AAHCA1962F
7	Indian Agri Services Private Limited	AACCI7169M
8	Phi Management Solutions Private Limited	AAECP7111Q
9	Arion Movie Productions Pvt. Ltd.	AARCA6056E
10	Citi Securities and Financial Services Private Limited	AACCC9559M
11	Deep Industrial Finance Limited	AAACV1614N
12	Azalia Distribution Private Limited	AAECB2295B
13	Vinayak Ventures Private Limited	AADCV3723H
14	Gamesa Investment Management Private Limited	AADCG2093F
15	Medybiz Private Limited	AACCM0084D
16	Hirma Power Limited	AABCH3229C

17	Tulip Advisors Private Limited	AADCT0485A
18	Mohanbir Hi-Tech Build Private Limited	AAJCM6196R
19	Netizen Engineering Private Limited	AABCR7570C
20	Crest Logistics and Engineers Private Limited (Now Known As CLE PRIVATE LIMITED)	AACCR7266A
21	Reliance Unicorn Enterprises Private Limited	AAACC2436P
22	Reliance Exchange next Limited	AABCR7567D
23	Reliance Commercial Finance Limited	AABCR6898M
24	Reliance Cleangen Limited	AAACR2664L
25	Reliance Business Broadcast News Holdings Limited	AABCU0804C
26	Reliance Broadcast Network Limited	AADCR1885L
27	Reliance Big Entertainment Private Limited	AAFCA6658L
28	Reliance Capital Limited	AAACR5054J

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

In the matter of Reliance Home Finance Limited

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A. BACKGROUND & INVESTIGATION

- SEBI was in receipt of multiple complaints/reports alleging diversion/siphoning of funds of Reliance Home Finance Ltd. (hereinafter referred to as “**RHFL/ the Company**”). An investigation was undertaken by SEBI for the period of FY 2018-19 (hereinafter referred to as the “**Investigation Period**”), to ascertain whether any provision of Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the “**SEBI Act, 1992**”), Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as the “**SCRA**”), Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to

as the “**LODR Regulations/ SEBI (LODR Regulations)**”), Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 (hereinafter referred to as the “**PFUTP Regulations**”) or any provisions of securities law, were violated.

2. A brief of the Investigation’s conclusions are discussed in the following paragraphs.
3. The shareholding in RHFL (*in percentage terms*), as noted from the website of BSE, is as follows:

Table - 1

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

		21.62% have been pledged)	have been pledged)		
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4. From the aforementioned shareholding pattern, it is noted that RCL was the major promoter of RHFL during the relevant period holding 47.91% of its shares. Mr. Anil D. Ambani (**Noticee no. 2**) was also the Promoter and Non-executive and Non-Independent Director of RCL, during FY 2018-19. Further, in terms of the Related Party disclosure made in the Annual Report of RCL, Noticee No. 2 had been disclosed as an Individual Promoter being '*the person having significant influence during the year*'. Furthermore, Noticee no.2 was also found to be a significant beneficial owner of the companies mentioned at Sr. no. 6, 7 and 8 in the table above.

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

Table - 2

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

#Appointed as an Additional Director on April 24, 2018

^ Continuing as on the date of the Interim Order cum SCN

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

Table - 3

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

*Chief Financial Officer till August 07, 2018

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

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

Table - 4

(INR In crore)

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

Investments	54.06	93.46
Total	15,407.75	18,125.44

(INR In Crore)

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

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

Table - 5

(INR in Crore)

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

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

9. The details captured in the Table - 5 above indicate that the loans extended by RHFL to the Corporates had significantly increased from an amount of INR 3742.60 Crore in 2017-18 to INR 8670.80 Crore in the year 2018-19.
10. During the investigation, SEBI had sought copies of certain Loan Application Documents pertaining to the General Purpose Working Capital Loans (hereinafter referred to as “GPCL”/ “GPC Loans”). An analysis of such documents (total 70 Loan Application Documents for the loans amounting to INR 6187.78 Crore for GPCL

disbursed in FY 2018-19) as furnished by RHFL to SEBI vide its letter dated December 23, 2021, has *inter alia* revealed the following facts:

- a) As many as 62 Loan Applications covering an amount of INR 5552.67 Crore (65.55% of INR 8470.65 Crore) were approved on the date of loan application itself, and 27 Loan Applications amounting to INR 1940.58 Crore (22.90% of INR 8470.65 Crore) were disbursed to the account of borrower entities on the date of the application itself.
- b) In the Credit Approval Memo (**CAM**) of loans amounting to INR 5850.19 Crore, deviations from due process have been recorded. The nature of various deviations so recorded in the CAMs are: Field Investigation waived, Probability of Default waived, eligibility criteria not as per the norms, no creation of security, no customer rating undertaken, escrow account not opened, etc. Further, the loan approval documentations were not properly executed and it has been noted that most of the loan application forms were left blank and the authorized signatories have merely signed on the last page of such application form (s).
- c) GPC Loans amounting to INR 4715.62 Crore (involving 56 applications) were approved by Credit Committee/Leadership Committee and out of the said loans, deviations as noted above, have been recorded by RHFL in the CAMs of as many as 50 such loans amounting to INR 4378.03 Crore. As stated later in this Order, senior key functionaries of the *Company* were entrusted with the task of approving loans involving amounts greater than INR 5.00 Crore, however, despite the constitution of the Credit Committee and even after recording deviations in the CAMs, serious aspects of the borrower entities like negative net worth, weak financials etc., have been completely overlooked and the loans have been sanctioned by the Credit Committee/ Leadership Council, inspite of the aforesaid deviations and deficiencies in the financial conditions of the applicants.

11. In terms of the loan documents submitted to SEBI, it has been noticed that 14 such loan applications involving an amount of INR 1472.16 Crore (approx.) were approved/

sanctioned by *Noticee no. 2* (as indicated in Table - 17) in his capacity as Chairman, ADA Group, inspite of the decision of the Board of Directors of RHFL in its meeting held on February 11, 2019 to not grant any further loans to corporates. Further, in respect of two such loan transactions, Reliance Infra has extended Guarantee for a sum of INR 385 Crore, details of which are as under:

Table - 6

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

B. OTHER REPORTS

12. The conclusions arrived at in two separate reports – one by PWC (the statutory auditor of RHFL) and the other by Grant Thornton (the Forensic Auditor appointed by Bank of Baroda which was the lead bank of the consortium of lenders of RHFL), has also been referred to by the Investigation Report of SEBI. A summary of PWCs communication with RHFL and SEBI prior to its report and a summary of the conclusions arrived at in Grant Thornton’s report are discussed below-

12.1 PWC report and related communication with RHFL:

12.1.1 In their letter dated June 11, 2019, addressed to the Board of Directors of RHFL, PWC had expressed that due to certain acts on the part of the *Company* it (PWC) was compelled to withdraw from the audit engagement in compliance with the Code of Ethics issued by the Institute of Chartered Accountants of India and the applicable standards on Auditing. Such acts

included non-receipt of substantive/satisfactory responses to the queries raised by them during the audit; failure to call the meeting of Audit Committee within the prescribed time after issuance of letter dated April 18, 2019 by PWC; and threatening PWC with legal proceedings etc. RHFL, however, vide its letter dated June 12, 2019 addressed to NSE and BSE, expressed its disagreement with the reasons cited by PWC for its resignation.

12.1.2 In its letter dated April 18, 2019 addressed to the CEO and CFO of RHFL (Noticee Nos. 4 and 5), PWC highlighted certain observations made by it in relation to the loans disbursed by RHFL under its GPCL product during the then ongoing Statutory Audit, and also sought responses of the management and Audit Committee on those observations. The said letter, *inter alia*, noted the fact that the amount of loans disbursed by RHFL under GPCL had increased exponentially from around INR 900 Crore as on March 31, 2018 to around INR 7900 Crore as on March 31, 2019. Further, based on their examination of different samples of borrowers of such loans advanced by RHFL, PWC had highlighted certain issues of serious concern such as net-worth of such borrowers being negative; having limited/ nil revenue or profit; no business activity of those borrowing companies other than borrowing money from RHFL for onward lending; low equity capital of borrowers in comparison to debt raised by them; incorporation of certain borrower companies shortly before disbursement of loans by RHFL; and in some cases, the loan sanction dates were found to be on the same date as the date of application for loan or even before the dates of applications made by these borrowers.

12.1.3 Further, in the said letter dated April 18, 2019, PWC also sought clarifications as to why the borrower entities should not be considered as group companies as email id of borrower company was having email domain address of Reliance ADA group, brand name of “Reliance” was appearing in the name of borrower company, Directors of such companies were employees of Reliance ADA group and multiple borrower companies having same registered address.

12.1.4 Based on the aforesaid information, PWC in the said letter sought responses to various queries such as the rationale behind sanctioning of such loans to group companies; procedures followed to monitor the end use of such loans; also about the default, if any, committed by RHFL on its debt repayments, etc.

12.1.5 In response to the queries raised by PWC in its letter dated April 18, 2019, RHFL, vide its letter dated May 09, 2019, while denying such loans being given to 'Group Companies' as pointed out by PWC, stated that: (a) the credentials of those borrowers were assessed based on their positive track records and references such entities had with Reliance Group entities; (b) it had advanced short term loans (upto 1 year) to these borrower companies for meeting short term working capital requirements and end use could be verified through the financials; (c) loans were extended on the strength of promoters/ project/ collateral; (d) loans had limited risk of weak collaterals or value erosions as RHFL created charge on these instruments; (e) RHFL had been successful in recovering money in the past; (f) appropriate KYC/ AML norms had been put in place; (g) top ten exposures were always presented to the Risk Management Committee, Audit Committee and Board of RHFL and quantum of such GPC Loans were duly reported to NHB; and (h) that there was a delay on principal repayments of an amount of INR 535 Crore with respect to bank borrowings and the regularization of such repayments is expected shortly.

12.1.6 PWC has also filed a report under Section 143 (12) of Companies Act, 2013 to Ministry of Corporate Affairs (MCA), and the said fact of reporting to MCA was informed to SEBI by PWC.

12.2 Forensic Audit Conducted for Bank of Baroda

A Forensic Audit was conducted by the lead bank of the consortium of lenders of RHFL, viz., Bank of Baroda into its loan transactions with RHFL. The scope of work of such audit was to conduct a detailed review for identifying the movement

of funds wherein disbursements of loans were apparently made by RHFL to Potentially Indirectly Linked Entities (“**PILEs**”) during the period of April 01, 2016 to June 30, 2019 (“**review period**”). In pursuance of the same, the Forensic Auditor has submitted two reports, viz: (i) Report dated January 02, 2020 pertaining to Forensic Review (“**1st Report**”) and Report dated May 06, 2020 (“**2nd Report**”) pertaining to Fund Tracing Activity.

12.2.1 Observations in the 1st Report

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

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

Table - 7

Observations	No. of Instances	Amount (INR Cr.)
Potential evergreening of loans	15	785.80
Potential circular transactions	3	412.89

Total amount potentially received back to Target Entity (i.e. RHFL) as repayment of existing loans		1198.69
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12.2.1.3 The loan files review conducted by the Forensic Auditors has highlighted anomalies in the loan approval process followed by RHFL which includes deviation from credit policy and appraisal of loan applications in the absence of various relevant documents like financial statements, income tax returns, contact details etc.

12.2.1.4 The 1st report has also highlighted serious anomalies in the credit appraisal process of RHFL. It was noticed that loans have been disbursed by RHFL prior to the sanction date of such loans; loans have been disbursed to parties with weak financials; and loans have been disbursed to entities which were incorporated recently thus having no significant business track record. There were other potential anomalies noticed in creation of charge on the security provided by the borrowers to RHFL. It was noticed that RHFL had disbursed loans aggregating INR 324.95 Crore during the review period to four (04) entities which had apparently inadequate repayment capacity. As a result, against the aforesaid loan amount, an amount of INR 310.02 Crore remained outstanding as on October 31, 2019 and all such four accounts have been declared as NPA by RHFL.

12.2.1.5 As per the 1st report, around INR 12, 574 Crore (approximately) was disbursed to entities falling in PILEs category and some of such amounts were further lent by these PILEs onwards to other PILEs/Related parties/Group entities. A large portion of such loans was found to have been extended without adhering to prudential lending norms related to repayment capacity, adequacy of security/collateral, other relevant key financial matrix of the borrowers and relevant documentations.

12.2.2 Observations in the 2nd Report:

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

Table - 8

*For the period of 2016-17 to 2018-19
INR Cr.*

Sr. No.	Disbursed to PILE	No of Loans	Amount	% to total Disbursement
1	Open LAN cases	100	8,884.46	71%
2	Closed LAN cases	50	3,688.60	29%
	Total	150	12,573.06	100%

LAN:- Loan Application Number

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

Table - 9

Sr. No.	Name of PILE/ Group Company	Group CO/PILE	Amount in Crores
1	Reliance Capital Limited	Group Co.	2359.91
2	Reliance Commercial Finance Limited	Group Co.	2278.58
3	Reliance Infrastructure Limited	Group Co.	1559.78
4	Reliance Home Finance Limited	Group Co.	1514.46
5	Reliance Big Entertainment Private Limited	Group Co.	254.09
6	Reliance Broadcast Network Limited	Group Co.	218.19

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

7	Reliance Business Broadcast News Holdings Limited	Group Co.	200.50
8	Reliance Power Limited	Group Co.	135.64
9	Crest Logistics And Engineers Private Limited	PILE	106.00
10	Gamesa Investment Management Private Limited	PILE	100.00
11	Kunjbihari Developers Private Limited	PILE	70.00
12	Reliance Mediaworks Financial Services Private Limited	Group Co.	14.73
13	Reliance Nippon Life Insurance Limited	Group Co.	11.00
14	Unlimit IOT Private Limited	Group Co.	5.00
	Total		8827.88

12.2.2.3 Apart from the aforesaid onward lending, the Forensic Audit Report has also given a classification of an amount of INR 8,842. 87 Crore (Out of INR 8,884.46 Crore involving 100 loan cases mentioned in Table - 8 above), based on utilization of such loans. A scrutiny of such 100 Open Loan cases indicated that some amount of funds advanced by RHFL have returned back to RHFL through circular transactions and also substantial amounts of such loans have been used by the borrowing entities for repayment of existing loans availed by them earlier from RHFL which means, such huge amounts of loans have been used by the borrowing entities for ever- greening of earlier loans. These broad findings about end use of such loans advanced by RHFL that were onward lent to those 14 Group companies/PILE, as noted from the said 2nd report of the Forensic Auditors are highlighted as below:

Table - 10

Sr. No.	Particulars	Paid to Banks	Paid to Non-Banks	Potential Circular Transactions	Total
1	Reliance Home Finance Limited			1610.13	1610.13
2	Repayment of loan / borrowings	1029.13	276.86		1305.99

3	Bank statement not available		1238.73		1238.73
4	Repayment of Commercial Paper	125.51	860.59		986.10
5	Investment in fixed deposit / Auto-sweep and mutual funds		819.10		819.10
6	Group Company / Third Party (nature of transaction not known)	3.82	660.11		663.93
7	Transfer to another bank account - further details not made available		567.73		567.73
8	Interest on NCDs		551.12		551.12
9	NCD Repayment		522.73		522.73
10	Reliance Capital Limited Dividend account		210.00		210.00
11	Repayment of Cash Credit Facility	180.00			180.00
12	Payee/ Beneficiary name not Available		128.42		128.42
13	Other miscellaneous payments			23.86	23.86
14	Loan Disbursements			18.91	18.91
	Grand Total	1338.46	5835.39*	1610.13	8842.87

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

12.2.2.4 The Forensic Auditors have also identified the connections between various entities involved in the end use of the funds advanced as loans by RHFL, to the extent possible. On further analysis of the broad classification of different end uses of the loans advanced by RHFL with respect to the afore-stated open (LAN) loan cases, the Forensic Auditors have reported that around 40% of such loan funds aggregating to INR 3,573.06 Crore were utilized by the borrowers towards debt repayment/servicing of PILEs/other group companies against term loans, NCDs, commercial papers etc., availed by them. It is stated

that an amount of INR 1,338.46 Crore has been utilized towards payment of banks and that INR 2,238.42 Crore has been utilized towards payment to NBFC/third party entities. Further, around 18% of the funds aggregating to INR 1,610.13 Crore is the amount that was involved in potential circular transactions, where the funds were routed back to RHFL via third parties, while around 9% of the funds aggregating to INR 819.10 Crore appears to have been used towards investments made in fixed deposits and mutual funds. The Forensic Auditors were however reportedly unable to trace out complete end utilization of around 22% of the funds aggregating to INR 1,934.88 Crore due to information limitations.

- 13.** Details regarding the facts that have come to light from the examination of the aforesaid documents/information and replies received in course of the investigation with respect to the aforesaid 45 GPCL Borrower entities (including the top 13 Borrowers and their onward loan transactions), which are relevant for the present proceedings are recorded in later paragraphs of this Order dealing with Issues for Consideration.

C. SCN, REPLIES AND HEARING

- 14.** Based on the conclusions arrived at pursuant to the investigation, an Interim Order cum Show Cause Notice dated February 11, 2022 (hereinafter referred to as the “**Interim Order**”/ “**SCN**”) was passed in the matter. The Interim Order inter alia directed that –

- Noticee Nos. 1-5 be restrained from dealing in securities in any manner whatsoever until further orders.
- Noticee Nos. 2-5 be restrained from associating themselves with any intermediary registered with SEBI, any listed public company or acting as Directors/ promoters of any public company which intends to raise money from public, till further orders.

Also, Noticees were called upon to show cause why suitable directions should not be issued against them and why penalty should not be imposed on them in accordance with the relevant provisions of SEBI Act. Noticee No. 3 was also called upon to show cause why penalty should not be imposed on him for making false statement during the investigation. Noticees were granted 21 days to file their replies from the date of receipt of Interim Order.

- 15.** Interim Order cum SCN was duly served upon all the Noticees. The Noticees undertook inspection of documents and filed their replies to Interim Order cum SCN on the dates mentioned below:

Table - 11

Noticee No.	Names of Noticees	Date(s) of Inspection	Date(s) of receipt of replies/ representation	Date(s) of Hearing
1	Reliance Home Finance Limited	April 19, 2022, June 02, 2022, August 17, 2022	April 19, 2023, July 10, 2023, August 01, 2023	July 05, 2023, August 01, 2023
2	Anil D. Ambani	April 19, 2022, June 08, 2022, August 22, 2022 October 14, 2022, January 03, 2023	February 24, 2023, May 27, 2023, June 15, 2023, July 21, 2023, July 26, 2023 February 26, 2024	February 27, 2023, May 31, 2023, February 14, 2024 ^^
3	Amit Bapna	April 19, 2022, June 02, 2022, August 17, 2022	June 16, 2023, August 01, 2023	July 05, 2023, August 01, 2023

4	Ravindra Sudhalkar	April 19, 2022, June 02, 2022, August 17, 2022	March 23, 2023, August 01, 2023	July 05, 2023, August 01, 2023
5	Pinkesh R. Shah	April 19, 2022, June 02, 2022, August 17, 2022	March 15, 2023, August 01, 2023	July 05, 2023, August 01, 2023
6	Adhar Project Management and Consultancy Private Limited	April 20, 2022, August 05, 2022	January 25, 2023	January 30, 2023
7	Indian Agri Services Private Limited	April 28, 2022, June 30, 2022, August 26, 2022	January 27, 2023	July 06, 2023
8	Phi Management Solutions Private Limited	April 20, 2022, August 05, 2022	January 25, 2023	January 30, 2023
9	Arion Movie Productions Pvt. Ltd.	April 25, 2022	January 30, 2023	N/A*
10	Citi Securities and Financial Services Private Limited	May 04, 2022 July 07, 2022 August 25, 2022	January 25, 2023	January 31, 2023
11	Deep Industrial Finance Limited	May 04, 2022 July 07, 2022 August 25, 2022	January 25, 2023, April 17, 2023	January 31, 2023, July 06, 2023

12	Azalia Distribution Private Limited	August 18, 2022 May 10, 2022 June 29, 2022	February 01, 2023	July 06, 2023
13	Vinayak Ventures Private Limited	April 25, 2022	January 30, 2023	N/A #
14	Gamesa Investment Management Private Limited	April 20, 2022, August 05, 2022	January 25, 2023	January 30, 2023
15	Medybiz Private Limited	April 28, 2022, June 30, 2022, August 26, 2022	January 27, 2023	July 06, 2023
16	Hirma Power Limited	April 25, 2022	January 30, 2023	N/A #
17	Tulip Advisors Private Limited	August 18, 2022 May 10, 2022 June 29, 2022	February 01, 2023	July 06, 2023
18	Mohanbir Hi- Tech Build Private Limited	April 20, 2022, August 05, 2022	January 25, 2023	January 30, 2023
19	Netizen Engineering Private Limited	April 22, 2022 August 26, 2022	March 06, 2023	July 11, 2023
20	Crest Logistics and Engineers	April 22, 2022	March 09, 2023	July 11, 2023

	Private Limited (Now Known As CLE PRIVATE LIMITED)	August 26, 2022		
21	Reliance Unicorn Enterprises Private Limited	August 04, 2022 May 05, 2022	March 13, 2023	July 11, 2023
22	Reliance Exchange next Limited	August 04, 2022 May 05, 2022	March 17, 2023	July 11, 2023
23	Reliance Commercial Finance Limited	September 05, 2022 April 26, 2022	December 23, 2022, March 16, 2023, April 18, 2023, July 28, 2023	July 13, 2023
24	Reliance Cleangen Limited	September 02, 2022 May 04, 2022 July 05, 2022 January 13, 2023 January 20, 2023	February 21, 2023	July 11, 2023
25	Reliance Business Broadcast	June 14, 2022 August 18, 2022 April 25, 2022	March 18, 2023	July 11, 2023

	News Holdings Limited	January 03, 2023		
26	Reliance Broadcast Network Limited	June 14, 2022 August 18, 2022 April 25, 2022 January 03, 2023	March 03, 2023	-
27	Reliance Big Entertainment Private Limited	June 14, 2022 August 18, 2022 April 25, 2022 January 03, 2023	March 18, 2023	July 11, 2023
28	Reliance Capital Limited	June 14, 2022 August 18, 2022 April 25, 2022	February 28, 2022	-

^{^^} Despite giving opportunities to make oral submissions on both preliminary objections as well as merits of the case, the Noticee chose to only argue the preliminary objections. He has however, in his written submissions, addressed both preliminary objections as well as merits of the case.

* Noticee No. 09 was granted an opportunity of personal hearing on January 30, 2023. However, vide its reply dated January 30, 2023, Noticee submitted that it does not need a personal hearing.

Noticee No. 13 & 16 was granted an opportunity of personal hearing on January 31, 2023. However, vide its reply dated January 30, 2023, Noticee submitted that it does not need a personal hearing.

16. The submissions made by the Noticees in reply to the SCN are summarized in the following paragraphs.

17. Noticee NO. 1

17.1 RHFL was undergoing a resolution initiated by the consortium of lenders in terms of the Reserve Bank of India (Prudential Framework for Resolution Stressed Assets) Directions, 2019 dated June 07, 2019 (hereinafter referred

to as “**RBI Framework**”). The Hon’ble Supreme Court, vide its judgment dated March 03, 2023, approved the Resolution Plan submitted by the resolution applicant, being Authum Investment and Infrastructure Ltd. (“**Authum**”) pursuant to the RBI Framework.

17.2 In terms of the said Resolution Plan, the entire business of RHFL now stands transferred to Authum through its wholly owned subsidiary on a going concern basis. The entire debt of RHFL stands resolved under the RBI Framework by virtue of the Resolution Plan. Pursuant to Resolution Plan, while the corporate shell of the Company survives, it has no business whatsoever and has negligible assets. The Company is a skeleton without soul or flesh and has to now mandatorily relinquish its license. Therefore, the proceedings initiated by SEBI does not survive against the Company.

17.3 On account of the market scenario in 2018-19, RHFL asked borrowers to furnish the additional cover and security for their loans and it was in that context that guarantees came to be furnished.

17.4 The confirmations for loans above a certain threshold were given by Noticee No. 28 as a holding company as per the GPCL Policy and not by Noticee No. 2 in his personal capacity.

17.5 RHFL is regulated by National Housing Bank (“**NHB**”) and generally, as an NBFC, if at all, by the Reserve Bank of India. GPC Loans were in compliance with rules and regulations framed by NHB and NHB permitted up to 50% of the total loan exposure of a housing finance company to be utilized towards GPCL. NHB has not found any fraud or lack of diligence and it is not within SEBI’s jurisdiction to determine the propriety or legitimacy of GPC Loans.

17.6 NHB had imposed penalty on RHFL for certain infractions pertaining to extension of GPC Loans and any imposition of any direction/ penalty by SEBI in the matter would violate principles against the proscription of double jeopardy.

- 17.7 Section 12A of the SEBI Act and the provisions of PFUTP Regulations are only attracted when a person deals in securities market. In granting GPC Loans, RHFL cannot be said to be dealing in securities.
- 17.8 The decision to extend GPC Loans to borrowers was a business decision taken by the management of RHFL with best interests of the Company in mind. In view of the prevailing issues in housing finance sector, the Company was of the opinion that best course of action would be to deploy funds in higher interest bearing corporate loans in the short term to book profits for the Company. GPC Loans were also granted in 2017-18 to some of the Noticees and the entire amount was repaid. The Company and its management could not have known at the time of extending such loans that they would ultimately turn into NPA or be onward lent or utilized in conflict with loan arrangements. Merely because a bona fide business decision went amiss, a charge of fraud cannot be imputed to the Company without displaying manipulative intent.
- 17.9 Due to onset of Covid-19, attempts to recover such monies were delayed and on basis of legal advice, notices were issued to borrower entities.
- 17.10 In its Annual Report for 2018-19, RHFL had disclosed that the Company had advanced loans under GPCL to certain bodies corporate including some of the group companies. It was also disclosed that all the lending transactions were in the ordinary course of business, the terms of which were at arms' length basis and that the same did not constitute transactions with related parties. The factum of the Company's borrowers' onward lending transactions as well as the fact that the end use of the borrowings from the Company included borrowings by or repayment of financial obligations to some of the group companies was also stated.
- 17.11 The Company had initiated independent exercise (by appointing two Chartered Accountant firms) of tracing of end-use of funds lent by it which confirmed the end use of over 98.4% funds for repayment of debt and balance for payment of statutory dues and other corporate purposes. However, there

was no finding that such lent funds were used for the benefit of the Company's management, promoters, etc.

17.12 In the forensic audit report by M/s Grant Thornton India LLP (appointed by Consortium of Lenders of RHFL), there were no findings on any fraud, embezzlement, diversion and siphoning of funds or falsification of account by the Company or its promoters.

17.13 RHFL's exposures to the GPCL were made known to Audit Committee, PWC and Board of Directors of the Company every quarter.

17.14 The mere fact that Credit Approval Memos contained deviations ought not to lead to an adverse inference or an indication as to fraud.

17.15 There may be some connection between borrowers. However, such connections do not indicate any collusion by the Company with such entities. In the matter of HB Stockholdings v. SEBI, the Hon'ble SAT observed that one or two persons sharing common address or one of the persons being promoter of the other group at some point in time are not in themselves sufficient to bring home the residual charge of fraud.

17.16 There is no specific provisions that requires disclosure of corporate guarantees in the Annual Report.

17.17 The documents and evidence relied upon by SEBI do not establish any collusion between the Company and its KMPs with the GPCL borrowers/ onward borrowers.

17.18 The preponderance of probability standard required to bring home a charge of fraud has not been met in the instant matter.

17.19 There was no misstatement in the financials of the company as the facts pertaining to GPCL were adequately conveyed. Further, as a larger portion of the GPC Loans was not due as on the date of signing the balance sheet, standard Expected Credit Loss provisions were made for the same.

17.20 The Interim Order was passed without affording an opportunity of hearing to the Noticee and hence, it is in violation of the principles of natural justice.

18. NOTICEE NO. 2

18.1 Noticee raised a preliminary objection that the instant proceedings against him are barred in law as there is a statutory moratorium in force. Noticee submitted that State Bank of India had filed applications under Section 95 of Insolvency and Bankruptcy Code, 2016 (hereinafter referred to as “**IBC**”) against Noticee No. 2 before Hon’ble National Company Law Tribunal, Mumbai in March 2020 and a moratorium under Section 96 of the IBC came into force on and from March 12, 2020. Noticee submitted that in view of the aforesaid moratorium, no legal action or proceedings in respect of any debt can continue after commencement of proceedings against an individual and all actions including but not limited to proceedings to impose monetary penalty would constitute a proceeding in respect of a debt.

18.2 During the course of oral submissions on February 27, 2023, Noticee’s AR also submitted that interim moratorium does not apply to remedial directions and that Noticee was in compliance of the remedial directions passed in the interim order in any case.

18.3 SCN does not make any specific mention of the breaches and defaults committed by Noticee No. 2 and does not mention the directions proposed to be issued to Noticee No. 2.

18.4 SEBI has not confirmed whether they have provided Noticee No. 2 with all the documents referred to and relied upon by SEBI.

18.5 Noticee was not a director of RHFL and there is nothing on record to say that he was in charge of or responsible to RHFL or he was involved in day to day management of RHFL.

18.6 In terms of Ind AS 28, a legal fiction is created of a person having gained ‘significant influence’ by virtue of his shareholding even though such person

may not have actually been exercising or participating in the financial and/ or operating policy decisions of an enterprise. Noticee No. 2 was disclosed as '*person having significant influence during the year*' in the Annual Report of RCL for FY 2018-19 because of his share ownership in RCL and Noticee cannot be made liable for all operations of RCL.

18.7 The objective of disclosing '*significant beneficial owner*' is to show who has economic ownership of more than 10% and not who has control. Being a significant beneficial owner does not *ipso facto* mean Noticee No. 2 was or is liable for all operations of RCL, RHFL or other entities in which such a disclosure was made.

18.8 As a Core Investment Company, RCL was primarily a holding company, holding investment in its subsidiaries, associates, and other group companies, each of which was run by professional management.

18.9 Noticee was merely a non-executive director of RCL and was in no way involved in its day to day affairs. Also, Noticee was not even on the board of remaining entities to whom money was onward lent by borrowers of RHFL.

18.10 Merely by virtue of being tagged a Chairman of RCL/ ADA Group, Noticee No. 2 cannot and did not have the right or authorization to participate or influence the financial or operating policy decisions of RHFL. Further, there is no concept of '*controlling influence*' in law. Securities regulation recognizes 'control' but there is no concept of 'influence' for the purposes of imposing penal liability.

18.11 Any action taken by Noticee No. 2 in relation to loans was not in his personal capacity or in his capacity as 'Chairman of Reliance ADA Group', but instead, by RCL. It is not SEBI's case that RCL wrongly approved/ sanctioned or confirmed such loans. RCL was neither required nor had the *locus standi* to conduct due diligence or carry out any credit assessment of the proposed borrowers of RHFL, in relation to credit memos placed before RCL by RHFL as per its GPCL policy. It was RHFL's responsibility to

undertake all checks and balances including due diligence on the proposed borrowers prior to sanctioning loans.

18.12 Noticee No. 2 was informed that requirement of signing the CAMs was pursuant to newly adopted/ amended GPCL Policy which required 'confirmation' from the holding company above certain thresholds from a good business perspective for information/ noting purposes. The policy did not envisage any approval from the holding company. Noticee No. 2 only counter signed such CAMs on behalf of RCL without there being any requirement for Noticee No. 2 to exercise any due diligence or credit risk evaluation or check the credit worthiness of the borrowers. As far as the Noticee No. 2 recalls, there was no requirement that such confirmations were required to be given pre-facto i.e. prior to disbursement of such loans. Confirmation could have been given on post facto basis as well. In fact, Noticee No. 2 understands that the CAMs signed by Noticee No. 2 were placed for confirmation of RCL after the disbursement of loans and not prior.

18.13 RHFL Board's decision in its meeting dated February 11, 2019 to not grant any further loans to corporates was applicable only to the management of RHFL and Noticee No. 2 was not holding any executive role, as an officer, director or otherwise, in RHFL. Further, Noticee No. 2 was not present at the said Board meeting and was not aware of such Board decision.

18.14 As per copy of the minutes of meeting of RHFL Board held on February 11, 2019, the operative decision taken by the RHFL Board was the establishment of 'Review Committee of Directors' and not the directions issued to the management of RHFL which merely formed part of the discussions amongst the directors of RHFL.

18.15 Noticee No. 2 has been alleged to be in violation of Regulation 26(3) and 33(2) of LODR Regulations. As per Regulation 26(3) of LODR, the obligation of its compliance is on board of directors and senior management personnel of the company. As per Regulation 33(2) of LODR, the obligation of its compliance is on board of directors, chief executive officer and chief

financial officer of the listed entity. However, Noticee was neither a member of the board, nor a director, nor an officer of RHFL, nor a chief executive officer, nor a chief financial officer of RHFL.

18.16 With reference to allegations of violation of PFUTP Regulations, it is submitted that SCN is based on business decision of RHFL with respect to granting loans and it is not shown in SCN that Noticee No. 2 has devised a scheme to defraud or manipulate dealing in securities. RHFL is regulated by NHB and RBI and any concerns pertaining to business operations of RHFL is a subject matter that needs to be decided by NHB and RBI, and not by SEBI.

18.17 With respect to guarantees provided by RInfra and RPower in favour of RHFL, Noticee No. 2 was a non-executive director of RInfra and RPower during the Investigation Period and had subsequently stepped down from the boards of these companies pursuant to the Interim Order. The process followed by RInfra and RPower whilst granting guarantees was an operational matter and as far as Noticee No. 2 recalls, the proposal for issuing guarantees was not placed before the board of RInfra and RPower for the board to pass a resolution prior to giving of such guarantees. Noticee presumes that such decision would have been taken by management/ executives of such companies having regard to the business and interest of such companies.

19. NOTICEE NO. 3

19.1 Noticee joined RHFL as non-executive director in April 2017, a position he held till June 23, 2020. The Noticee was also CFO of RHFL from September 08, 2017, to August 07, 2018 post the departure of previous CFO in order to fulfil technical requirement under Section 203 of the Companies Act, 2013. The Noticee was a member of the Risk Management Committee of RHFL and the credit committee thereof during the investigation period.

19.2 GPC Loans were legitimate and within the scope of NHB's regulatory framework. The fact that Company was extending loans such as the GPCL was made known to the statutory auditors right from the inception of product

being offered by the Company. The NHB too, was privy to the fact that the Company had been issuing such loans. Further, the top exposures, including those owing to GPC Loans always formed part of the presentations made to the audit committee and were notified to the Risk Management Committee.

19.3 The loans were secured against receivables of the borrower entities. At the time of disbursements of such loans, neither the Company, nor the Noticee was aware of any proposed onward lending of such loans by the borrower entities, or any such intention to onward lend such monies.

19.4 Interim Order has been issued with a pre-conceived mindset as SEBI has already concluded that Noticee was aware of the destination of funds and was involved in siphoning off of funds.

19.5 Being in the home finance business, RHFL is regulated by NHB and generally as an NBFC, if at all, by the RBI. SEBI does not have the jurisdiction to question such lending transactions by the Company and issue of propriety or legitimacy of the loans in question too, does not fall within the realm of matters that can be decided by SEBI.

19.6 Charge of violation of Section 12A of the SEBI Act and Regulations 3 and 4 of the PFUTP Regulations, in the instant case is unfounded as such a charge can only be sustained when there is a direct or indirect dealing in securities by a person. In the instant case, in approving GPC Loans, the Noticee cannot be said to be a person dealing in securities.

19.7 RHFL's decision to grant GPC Loans was a business decision that was not contrary to any law. Merely because in hindsight, such decision turned out to be loss making decision, mala fides cannot be attributed to such decision to extend loans to the GPCL borrowers. Noticee could not have known at the time of extending such loans that they would ultimately turn into NPA or be onward lent or utilized in conflict with loan agreements.

19.8 Noticee cannot be faulted with non-recovery of GPC Loans by RHFL as it was not the role and function of the Noticee as a non-executive director of

the Company. Noticee was in a management position only till August 07, 2018 (till which time he was CFO) and there were no defaults at the time as GPC Loans were not due and payable till such time. Further, Noticee, being a non-executive director, cannot be faulted for any non-invocation of guarantees till such time.

19.9 Noticee never directed credit managers and CRO to not follow any required process or put up the file for approval the same day as receipt of the application.

19.10 The mere fact that CAMs contained deviations ought not to lead to an adverse inference or an indication as to fraud as deviations were recorded as per standard practice and higher interest rates were charged on GPC Loans. Noticee was not responsible for the specific CAMs being placed before him/ the Credit Committee for approval. Upon CAMs being recommended for approval, the Credit Committee took an informed decision to approve such loans on account of best business judgment, increased interest component etc. and in the ordinary course of business as per the board approved policy.

19.11 The connection between the borrowers inter-se do not indicate any collusion by the Company with such entities or any wrongdoing on part of the Noticee. In the matter of HB Stockholdings v. SEBI, the Hon'ble SAT observed that one or two persons sharing common address or one person being promoter of other group was not sufficient to bring home the residual charge of fraud. Further, loan documentation, KYC requirements, etc. was a function of credit team and not the Noticee.

19.12 SEBI has not brought on record any evidence to demonstrate that the Noticee had any knowledge of onward lending by the GPCL borrowers at the time of disbursal of loans.

19.13 There is no specific provision that require disclosure of corporate guarantees in the Annual Report.

- 19.14 SEBI's allegations is based on the wrongful assumption of duties of the CFO and wrongful consideration of facts. As CFO of RHFL, the Noticee was only concerned with finance functions of the Company and none of its business functions, which was the responsibility of the management and respective teams. The Noticee was not responsible for the preparation of quarterly or annual financials of the Company post his tenure as CFO came to an end on August 07, 2018 and even the financials of quarter ended June 30, 2018 were prepared by next CFO.
- 19.15 GPC Loans were approved in line with Company's business to deploy funds in the short term to increase profitability. Merely because a bona fide business decision went amiss, a charge of fraud cannot be imputed on the Company and in turn, the Noticee without displaying manipulative intent.
- 19.16 SEBI has alleged collusion on the basis of Noticee's role as CFO of RCL as well as CFO of RHFL. It is significant to note that after August 07, 2018 (when he ceased to be CFO of RHFL), he continued only a non-executive director of RHFL. With regards to lending of INR 100 Crore to Aadhar Project Management and Consultancy Private Limited by RHFL and onward lending of INR 69.50 Crore to RCL, it is submitted that it was independent lending and it appears to be re-financing of debt by Aadhar. Also, the said loan was repaid by Aadhar to RHFL.
- 19.17 In view of absence of cogent evidence pointing towards the involvement of Noticee in onward lending of loans to promoter related entities, the observations and findings in the Interim Order fail and therefore, are liable to be set aside.
- 19.18 With respect to allegations of violation of PFUTP Regulations, Noticee has not dealt in securities, GPC Loans were as per Company Policy and permitted by NHB. Until the time he was CFO of RHFL, GPC lending was well within regulatory limits.

19.19 Noticee did not provide any compliance certificate for the Financial Year ending March 2019. Noticee only signed the financials/ Annual Report of the Company for year ending March 2019 in his capacity as a non-executive director of the Company, believing such financials to be true and fair.

19.20 Noticee discharged his functions as a non-executive director in accordance with the duties of a director contained in the LODR Regulations. Further, as a non-executive director of RHFL, he was not responsible for placing information before the RHFL Board under Regulation 17(7) of LODR Regulations.

19.21 SEBI has failed to show any urgency in passing the Interim Order as GPC Loans were discontinued from May 2019 and Interim Order was passed without affording an opportunity of personal hearing to the Noticee, in violation of the principles of natural justice.

19.22 With respect to allegation of making a false statement that Noticee was never associated with Reliance Media Works Limited (“**RMWL**”), it is pertinent to note that Noticee was never on the board of or had anything to do with the affairs of RMWL directly. RMWL was a group company of RCL and as such had funded and supported the business of RMWL as it did for other group companies.

20. NOTICEE NO. 4

20.1 Noticee was CEO of RHFL from October 2016.

20.2 In view of the issues faced by housing finance industry, RHFL was of the opinion that it would deploy its funds in higher interest bearing GPC Loans in short term, book profits, meet its dues and redeploy the funds in housing related loans in the medium to long run. Company charged a higher rate of interest and an upfront fee was charged on such loans for the risk the Company was undertaking in advancing them.

- 20.3 GPC Loans were legitimate within the scope of the regulatory framework of NHB and loans were secured against receivables of the borrower entities. At the time of disbursements of such loans, neither the Company nor its management was aware of any proposed onward lending of such loans by the borrower entities.
- 20.4 GPC Loans were extended in accordance with approved policy and no deviation from the said policy was observed by the regulator or the auditor. The top exposures, including GPC Loans, always formed part of the presentation made to the Audit Committee and were notified to the Risk Management Committee.
- 20.5 Upon knowing the onward lending activities by borrowers, guarantees were obtained from listed companies, namely Reliance Infrastructure Limited and Reliance Power Limited.
- 20.6 SEBI has already concluded that Noticee was aware of the destination of funds and was involved in siphoning of funds which is in violation of principles of natural justice.
- 20.7 SEBI does not have the jurisdiction to question the lending transactions of the Company. The issue of propriety or legitimacy of the loans in question does not fall within the realm of matters that can be decided by SEBI, being matters that can only be looked into and decided upon by NHB.
- 20.8 The charge of violation of Section 12A of the SEBI Act and provisions of PFUTP Regulations is unfounded as such a charge can only be sustained when there is a direct or indirect dealing in securities by a person.
- 20.9 Merely because a business decision to extend GPC Loans turned out to be loss-making decision, mala fides cannot be attributed to such decision and Company/ its management could not have known at the time of extending such loans that they would ultimately turn into NPA, or be onward lent or utilized in conflict with loan agreements.

- 20.10 For recovery of dues, legal notices were issued to the defaulting borrowers and such attempts were impacted due to Covid-19. The guarantees obtained by RHFL were not time bound guarantees.
- 20.11 While there may have been lapses in terms of finalizing formal loan documentation, such findings do not indicate any fraud or collusion by RHFL/ Noticee with the borrower entities. Noticee never directed any person/ concerned team to not follow the required process.
- 20.12 The mere fact that CAMs contained deviations ought not to lead to an adverse inference or an indication as to fraud. In case of increased risk and significant deviations, higher interest rates were charged to account for such risk. Noticee was not responsible for the specific CAMs being placed before him/ the Credit Committee for approval, which was the role of CRO. Upon CAMs being recommended for approval, the Credit Committee took an informed decision to approve such loans on account of best business judgment, increased interest component, etc.
- 20.13 The confirmations given by Noticee No. 2 were in accordance with the documented policy of the Company on GPCL. Noticee neither approved nor recommended a single non-housing loan post the directive of the Board of Directors dated February 11, 2019.
- 20.14 The connection between GPCL borrowers inter-se and between GPCL borrowers and certain onward borrower entities does not indicate any wrongdoing on the part of the Company or the Noticee and also does not indicate any collusion by the Company with such entities. In this regard, Noticee has relied on the decision of Hon'ble SAT in HB Stockholdings matter to submit that there has to be sufficient evidence on record to clearly prove connivance on the part of the Company and the Noticee. Also, the KYC requirements, details in loan application form, etc. were a function of credit team/ credit manager and not the Noticee.

- 20.15 SEBI has not brought on record any evidence to demonstrate that the Company or the Noticee had any knowledge of onward lending by GPCL borrowers at the time of disbursal of loans.
- 20.16 There is no specific provision that requires disclosure of corporate guarantees in the Annual Report. Upon becoming aware of the onward lending activities of GPCL borrowers, the Company lead by the Noticee, as a good corporate governance measure, obtained such guarantees to strengthen recovery in case of default. The details of guarantees were promptly disclosed to NHB during its snap inspection.
- 20.17 Manipulative intent on part of the Company and the Noticee at the time of disbursal of loans has to be proved by SEBI to a high degree of probability.
- 20.18 To sustain a charge of being a part of a fraudulent scheme or artifice by which funds of the Company were knowingly transferred to entities connected to promoters and onward lent, collusion of the Company and its KMPs including the Noticee with the GPCL borrowers/ onward borrowers have to be established and SEBI has not been able to establish any such collusive meeting of minds.
- 20.19 Note 2 to the balance sheet of the Company adequately conveyed to all concerned the factum of GPC Loans being extended at arm's length basis and the factum of onward lending by certain borrowers. No further disclosure was given as the same was not required and was not within the knowledge of the Company at the relevant time.
- 20.20 Expected Credit Loss for year ending March 31, 2019 considered provisioning for all loans that were due as on date of balance sheet signing (August 13, 2019) which was the most prudent practice. Since a large portion of GPCL Loans were not due for repayment given that their tenure had not ended, standard ECL provisions were made for such loans.
- 20.21 There has been no misrepresentation of accounts and that the loans have been classified as NPA whenever they turned NPA. There was no way

that the Company and/ or Noticee could have predicted that the loans will become NPA subsequently. It is to be noted that not all loans given as GPC Loans have defaulted and some have also been repaid. The loans were to be paid after one year with interest and hence, they turned NPA after 15 months of disbursement.

20.22 PWC had provided an unqualified opinion in relation to the Company's financials in the Financial Year 2017-18 and no issues were raised by PWC in relation to the GPC Loans being furthered by the Company in its limited review reports for quarters ending June 2018, September 2018 and December 2018.

20.23 The information furnished in the financials were true to the knowledge of the Noticee and Noticee did not believe such information contained in the financials to be false.

20.24 SEBI has failed to show any urgency in passing the Interim Order as GPC Loans were discontinued from May 2019 and Interim Order was passed without affording an opportunity of personal hearing to the Noticee, in violation of the principles of natural justice.

21. NOTICEE NO. 5

21.1 Noticee joined RHFL in July 2018 and was appointed as CFO from August 07, 2018. Noticee resigned and ceased to be CFO and employee of RHFL from May 08, 2020.

21.2 Noticee was not a member of any Committee of the Board of RHFL including the Credit Committee thereof. Being a CFO, Noticee was not involved in any of RHFL's business functions and only dealt with its finance functions. Noticee was not involved in the lending role of RHFL as alleged in the Interim Order.

21.3 Unlike non-financial companies, money/ funds are akin to raw material for a finance company and advancing of loans is a business function and not

a finance function. Noticee was never privy to any loan documentation, any discussion in relation to the same, or in approving/ rejecting them, etc.

21.4 Apart from housing loans, RHFL, consistent with what is permitted by NHB, also provided short term corporate loans to increase its return on investment. GPC Loans were generally priced at a higher interest rate than normal lending rates for housing loans to account for the increased risk associated with such lending. The fact that GPC Loans were extended by RHFL was made known to the statutory auditors right from the inception.

21.5 GPC Loans were offered by RHFL in normal course of business as per the approved policy. The top exposures, including GPC Loans, always formed part of the presentation made to Audit Committee of RHFL and were notified to the Risk Management Committee of RHFL.

21.6 SEBI has already concluded that Noticee was aware of the destination of funds and was involved in siphoning of funds which is in violation of principles of natural justice.

21.7 SEBI does not have the jurisdiction to question the lending transactions of the Company. The issue of propriety or legitimacy of the loans in question does not fall within the realm of matters that can be decided by SEBI, being matters that can only be looked into and decided upon by NHB.

21.8 The charge of violation of Section 12A of the SEBI Act and provisions of PFUTP Regulations is unfounded as such a charge can only be sustained when there is a direct or indirect dealing in securities by a person.

21.9 SEBI has not brought on record any material to prove that it was Noticee's duty to carry out due diligence on loan applications and that he failed to discharge such duty, Noticee was aware that PILE entities would onward lent the funds to promoter linked entities of RHFL and that borrowers would default in making repayment.

21.10 The information furnished in the financials were true to the knowledge of the Noticee and Noticee did not believe such information contained in the financials to be false.

21.11 Note 2 to the balance sheet of the Company adequately conveyed to all concerned the factum of GPC Loans being extended at arm's length basis and the factum of onward lending by certain borrowers. No further disclosure was given as the same was not required and was not within the knowledge of the Company at the relevant time.

21.12 SEBI has failed to show any urgency in passing the Interim Order as GPC Loans were discontinued from May 2019 and Interim Order was passed without affording an opportunity of personal hearing to the Noticee, in violation of the principles of natural justice.

22. NOTICEE NO. 6

22.1 Noticee is a private limited company and is neither in the business of dealing in securities nor is associated with the securities market.

22.2 Noticee used the funds borrowed from RHFL for legitimate purpose of repayment of existing debt and to onward lend some amount at a higher rate of interest than the borrowing rate to increase profitability and its revenues.

22.3 Some of the transactions have been incorrectly termed as onward lending when they were in fact repayment transactions. Such transactions were for repayment of INR 65.90 Crores to RCL and INR 151.12 Crores to Reliance Commercial Finance Limited for Inter Corporate Deposits taken from such entities.

22.4 Noticee did not know and was not required to know the source of funds of Medybiz Private Limited prior to obtaining such loan. Noticee has repaid INR 46.72 Crores of loan taken from Medybiz Private Limited. Mere taking of such loan cannot point towards any connivance of the Noticee to facilitate transfer of funds from RHFL to promoter linked entities.

22.5 Interim Order cum SCN has caused grave reputational damage to the Noticee and also affected the business of the Noticee.

22.6 Interim Order cum SCN goes on to make conclusive finding that the Noticee is a conduit to the alleged fraud without providing evidence to that effect. It does not allege or bring anything on record to show that Noticee was acting under the instructions of RHFL/ its KMPs or any of its promoter linked entities to divert RHFL's funds to promoter linked entities. Merely because of common address and common directorships with certain other entities, it cannot be concluded that Noticee is colluding with RHFL/ its promoter linked entities.

22.7 In order to allege fraud under the PFUTP Regulations, the essential requirement of PFUTP Regulations is that the fraud has to be in relation to securities market. Noticee neither dealt in the securities of RHFL nor induced any one to deal in the securities. Interim Order does not meet the standard of preponderance of probabilities which is required to establish a charge under PFUTP Regulations. In the matter of Shruti Vora, the Hon'ble SAT in its order dated March 22, 2021 has been held that existence of one or two attendant circumstances cannot be said to meet the test of preponderance of probabilities.

22.8 Out of INR 534.60 Crores taken from RHFL, INR 329.81 Crores has been repaid to RHFL and the remaining amount could not be paid due to certain financial difficulties. Out of the total loans of INR 316.98 Crore extended to other entities, Noticee has received back amounts of INR 178.5 Crores and remaining is outstanding on account of business difficulties.

23. NOTICEE NO. 7

23.1 Noticee is a private limited company which operates as an independent entity controlled by its management. RHFL or any other entity does not control or regulate the day-to-day affairs or business decisions of the Noticee.

- 23.2 SEBI has been conferred with the jurisdiction to regulate the securities market. However, in the present case, the Noticee is an unlisted private company and has no relation with the securities market. Merely taking loans from RHFL cannot subject the Noticee to SEBI's jurisdiction.
- 23.3 By wrongly connecting the lending and borrowing transactions, a fraudulent colour has been given to bona fide genuine commercial transactions.
- 23.4 The Order concludes, without any evidence to support, that Noticee is a conduit to the alleged fraudulent scheme wherein funds of RHFL were transferred to promoter-linked entities.
- 23.5 SEBI has relied on certain 'connecting factors' such as common address with an alleged PILE entity, common directorships, etc. In this regard, it is submitted that Hon'ble SAT in HB Stockholdings v. SEBI observed that mere fact of one or two persons sharing common address is not sufficient to establish a charge of fraud and that there has to be sufficient evidence on record.
- 23.6 The borrowing transactions of Noticee with RHFL was to meet the requirements of the Noticee. Out of the borrowed sum of INR 693 Crores from RHFL, INR 532 Crores has been repaid. Further, the loan of INR 100 Crores was obtained from Phi for bona fide purposes.
- 23.7 With respect to fund transfer to alleged promoter linked entities of RHFL, it is submitted that two of such cases were loans provides to entities to take advantage of higher interest component and to derive profits. Also, five of the transactions was not at all an onward borrowing by the Noticee but a repayment of existing loans taken by the Noticee including fund transfer of INR 20 Crores to Phi.
- 23.8 With respect to same date of approval and disbursal of loan, it is submitted that Noticee and RHFL were in discussion for the disbursal of loans as Noticee required funds and only when the discussion fructified that the

application was made and loans were disbursed. A delay in documentation cannot lead to a finding of fraud.

23.9 Interim Order does not meet the test of preponderance of probabilities which is required to establish a charge under PFUTP Regulations.

24. NOTICEE NO. 8

24.1 Noticee is a private limited company and is neither in the business of dealing in securities nor is associated with the securities market.

24.2 Noticee took the loans from RHFL and onward lent some amounts for partaking in interest rate arbitrage to increase its revenues and profitability.

24.3 Interim Order goes on to make conclusive finding that Noticee is a conduit to the alleged fraud without providing any evidence to that effect. SCN has caused reputational damage to Noticee.

24.4 SCN wrongly records that Noticee borrowed INR 20 Crores from Indian Agri Services Private Limited. The said transaction was part repayment of an Inter Corporate Deposit that was given by Noticee to Indian Agri Services Private Limited on October 12, 2018.

24.5 In order to allege fraud under PFUTP Regulations, the essential requirement is that fraud has to be in relation to securities market. Merely taking of loan and granting of loans/ repaying existing loans cannot be said to be fraud. Noticee neither dealt in the securities of RHFL nor induced anyone to deal in the securities.

24.6 SCN does not allege or bring anything on record to show that the Noticee was acting under the instruction of RHFL/ its KMPs or any of its promoter linked entities to divert funds to promoter linked entities. Noticee is an independent entity and merely because of common address and common directorships with certain other entities, SEBI has alleged that Noticee is colluding with RHFL/ its promoter linked entities.

24.7 Interim Order does not meet the standard of preponderance of probabilities which is required to establish a charge under PFUTP Regulations. In the matter of Shruti Vora, the Hon'ble SAT in its order dated March 22, 2021 has been held that existence of one or two attendant circumstances cannot be said to meet the test of preponderance of probabilities.

24.8 Noticee is alleged to be in violation of LODR Regulations. As Noticee is an unlisted company, LODR Regulations are not applicable to it.

25. NOTICEE NO. 9

25.1 Noticee is a private limited company and shares of the Noticee are not listed on any stock exchange.

25.2 SEBI does not have jurisdiction over the Noticee as SEBI is a regulator of Indian securities market and Noticee is a private unlisted company. Noticee has never dealt in the securities market and merely because Noticee engaged in certain borrowing and lending transactions, which has no nexus with trading in shares or dealing in securities market, SEBI cannot presume jurisdiction over the Noticee and pass directions against Noticee.

25.3 SEBI has alleged violation of LODR Regulations by Noticee. However, LODR Regulations are only applicable to listed entities.

25.4 Noticee being an unlisted private company, that does not deal in shares, cannot be construed as a 'person associated with the securities market'. Thus, no direction can be passed by SEBI against the Noticee.

25.5 For an activity to be labelled as 'fraud' under PFUTP Regulations, there should be dealing in securities/ inducement to deal in securities and in the present matter, there is no allegation against the Noticee that it had dealt in securities or induced another entity to deal in securities.

26. NOTICEE NO. 10

- 26.1 Noticee is a private limited company incorporated in 1990 having a sizeable business and is neither involved nor associated with securities market in any manner.
- 26.2 SEBI has been conferred with jurisdiction to regulate the securities market. However, in the instant case, Noticee being an unlisted private company has no correlation with the securities market and mere act of taking loans from RHFL/ any other listed entity cannot entitle SEBI to exercise jurisdiction over it.
- 26.3 Noticee is an independent entity controlled and managed by its own set of executive and functionaries who have no link or connection with RHFL or any of its promoter linked entities.
- 26.4 Noticee had taken a loan of INR 220.80 Crores at the interest rate of 15% and in an independent and bonafide transaction, lent it to another entity at an interest rate of 16.50% with a commercial mindset to take advantage of the interest rate differential.
- 26.5 SCN fails to make out a *prima-facie* case against the Noticee and it lacks any urgency to dispense with the requirement of pre-decisional hearing. SCN has resulted in permanent and irreversible damage to the reputation of the Noticee.
- 26.6 In the absence of any finding with respect to role of the Noticee in the affairs of RHFL or role of RHFL or its officials/ officials of its promoter group entities in the affairs of the Noticee, the allegations cannot be levelled against the Noticee.
- 26.7 A business decision or judgment cannot be called into question at a later stage and that an assumption of legality ought to be taken in case of such decision.

26.8 In order to constitute a fraud under PFUTP Regulations, it is essential that there is dealing in securities. In the present case, though fraud has been alleged but nothing has been brought on record to show that the Noticee has dealt in securities or induced another person to deal in securities.

26.9 LODR Regulations can only be applicable on listed entities and given that Noticee is not a listed entity, any allegation under the LODR Regulations cannot be sustained.

27. NOTICEE NO. 11

27.1 Noticee is a private limited company incorporated in 1991 having a sizeable business and is neither involved nor associated with securities market in any manner.

27.2 SEBI has been conferred with jurisdiction to regulate the securities market. However, in the instant case, Noticee being an unlisted private company has no correlation with the securities market and mere act of taking loans from RHFL/ any other listed entity cannot entitle SEBI to exercise jurisdiction over it.

27.3 Noticee is an independent entity controlled and managed by its own set of executive and functionaries who have no link or connection with RHFL or any of its promoter linked entities.

27.4 Noticee had entered into only one loan transaction of INR 220 Crores with RHFL and the said amount was utilized for repayment of an existing outstanding ICD of the Noticee.

27.5 SCN fails to make out a *prima-facie* case against the Noticee and it lacks any urgency to dispense with the requirement of pre-decisional hearing. SCN has resulted in permanent and irreversible damage to the reputation of the Noticee.

27.6 In the absence of any finding with respect to role of the Noticee in the affairs of RHFL or role of RHFL or its officials/ officials of its promoter group

entities in the affairs of the Noticee, the allegations cannot be levelled against the Noticee.

27.7 A business decision or judgment cannot be called into question at a later stage and that an assumption of legality ought to be taken in case of such decision.

27.8 In order to constitute a fraud under PFUTP Regulations, it is essential that there is dealing in securities. In the present case, though fraud has been alleged but nothing has been brought on record to show that the Noticee has dealt in securities or induced another person to deal in securities.

27.9 LODR Regulations can only be applicable on listed entities and given that Noticee is not a listed entity, any allegation under the LODR Regulations cannot be sustained.

27.10 The basis for the SCN is the forensic audit carried out by Bank of Baroda which culminated into forensic audit reports. The said reports were also the basis of the purported classification of the account of Noticee No. 1 as fraud. The Hon'ble Supreme Court of India in State Bank of India v. Rajesh Agarwal & Ors. has held that the entire process of classification as 'fraud' was in violation of principles of natural justice. The forensic audit reports, which forms the basis and foundation of the issuance of SCN, is of no legal consequence in view of the aforesaid judgment and consequently, SCN is not sustainable in fact and in law.

28. NOTICEE NO. 12

28.1 Noticee is a private limited company incorporated in 2010 and has no connection/ dealings with securities market. Noticee is an independent entity managed and controlled by its own set of functionaries.

28.2 The Interim Order has caused grave damage to the market reputation of the Noticee and tarnished its commercial prospects.

- 28.3 As there was no direction in the Interim Order against the Noticee, the requirement of pre-decisional hearing could have been complied with.
- 28.4 Noticee is an unlisted entity and does not operate in the securities market and is therefore beyond the jurisdictional purview of SEBI. Merely executing a loan transaction cannot bring Noticee within SEBI's jurisdiction.
- 28.5 The allegation of violation of LODR Regulations is baseless as the same is only applicable on the listed entities.
- 28.6 The essential ingredient for alleging violation of PFUTP Regulations is to deal in securities or to induce another party to deal in securities which is not met for the Noticee.
- 28.7 Nothing has been brought on record to show collusion between Noticee and RHFL or between Noticee and onward borrowers.
- 28.8 Out of the loan of INR 386.50 Crores borrowed from RHFL, INR 211.10 Crores has already been repaid by the Noticee.
- 28.9 On the allegation of loans being approved and disbursed on same date on which loan applications were made, it is submitted that Noticee had been discussing loan disbursement with RHFL and paperwork was put in place only when a green signal was observed from RHFL. In any case, Noticee was the recipient of the loan and not the decision maker with regard to disbursement of loan.
- 28.10 The test of preponderance of probabilities is not satisfied in the matter as allegation of fraud cannot be on the basis of mere surmises and conjectures.

29. NOTICEE NO. 13

- 29.1 Noticee is a private limited company and shares of the Noticee are not listed on any stock exchange.

- 29.2 SEBI does not have jurisdiction of over the Noticee as SEBI is a regulator of Indian securities market and Noticee is a private unlisted company. Noticee has never dealt in the securities market and merely because Noticee engaged in certain borrowing and lending transactions, which has no nexus with trading in shares or dealing in securities market, SEBI cannot presume jurisdiction over the Noticee and pass directions against Noticee.
- 29.3 SEBI has alleged violation of LODR Regulations by Noticee. However, LODR Regulations are only applicable to listed entities.
- 29.4 Noticee being an unlisted private company, that does not deal in shares, cannot be construed as a 'person associated with the securities market'. Thus, no direction can be passed by SEBI against the Noticee.
- 29.5 For an activity to be labelled as 'fraud' under PFUTP Regulations, there should be dealing in securities/ inducement to deal in securities and in the present matter, there is no allegation against the Noticee that it had dealt in securities or induced another entity to deal in securities.

30. NOTICEE NO. 14

- 30.1 Noticee is a private limited company and is neither in the business of dealing in securities nor is associated with the securities market.
- 30.2 Noticee approached RHFL to raise some funds to meet its working capital requirement. Such loans were used by Noticee to repay certain existing loans and rest of the funds were lent to other entities who were in need of funds. Similarly, Noticee also approached Noticee Nos. 8 and 18 to explore possibility of obtaining a loan.
- 30.3 Interim Order goes on to make conclusive finding that Noticee is a conduit to the alleged fraud without providing any evidence to that effect. SCN has caused reputational damage to Noticee.
- 30.4 In order to allege fraud under PFUTP Regulations, the essential requirement is that fraud has to be in relation to securities market. Merely

taking of loan and granting of loans/ repaying existing loans cannot be said to be fraud. Noticee neither dealt in the securities of RHFL nor induced anyone to deal in the securities.

30.5 The loan transactions are genuine and bonafide transactions. Out of loan of INR 664 Crores taken from RHFL, INR 529 Crores has been repaid to RHFL by the Noticee and despite financial difficulties, Noticee is exploring the possibility of repayment of balance amount.

30.6 With respect to loans taken from Noticee No. 8 and 18, Noticee was not aware of the source of funds lent by these entities to Noticee and it is not incumbent on the Noticee to check the source of funds of a company prior to obtaining loans.

30.7 SCN does not allege or bring anything on record to show that the Noticee was acting under the instruction of RHFL/ its KMPs or any of its promoter linked entities to divert funds to promoter linked entities. Noticee is an independent entity and merely because of common address and common directorships with certain other entities, SEBI has alleged that Noticee is colluding with RHFL/ its promoter linked entities.

30.8 Interim Order does not meet the standard of preponderance of probabilities which is required to establish a charge under PFUTP Regulations. In the matter of Shruti Vora, the Hon'ble SAT in its order dated March 22, 2021 has been held that existence of one or two attendant circumstances cannot be said to meet the test of preponderance of probabilities.

30.9 Noticee is alleged to be in violation of LODR Regulations. As Noticee is an unlisted company, LODR Regulations are not applicable to it.

31. NOTICEE NO. 15

31.1 Noticee is a private limited company which operates as an independent entity controlled by its management. RHFL or any other entity does not

control or regulate the day-to-day affairs or business decision of the Noticee. Noticee is neither a listed company nor has dealt in the securities market.

31.2 SEBI has been conferred with the jurisdiction to regulate the securities market. However, in the present case, the Noticee is an unlisted private company and has no correlation with the securities market. Merely taking loans from RHFL cannot subject the Noticee to SEBI's jurisdiction.

31.3 By wrongly connecting the lending and borrowing transactions, a fraudulent colour has been given to bona fide genuine commercial transactions.

31.4 The Order concludes, without any evidence to support, that Noticee is a conduit to the alleged fraudulent scheme wherein funds of RHFL were transferred to promoter-linked entities. SEBI has failed to provide a pre-decisional hearing to the Noticee.

31.5 SEBI has relied on certain 'connecting factors' such as common address with an alleged PILE entity, common directorships, etc. No allegation of control of RHFL or its officials/ functionaries in the affairs of the Noticee has been levelled by SEBI. In this regard, it is submitted that Hon'ble SAT in HB Stockholdings v. SEBI observed that mere fact of one or two persons sharing common address is not sufficient to establish a charge of fraud and that there has to be sufficient evidence on record.

31.6 In order to assign a particular act within ambit of fraud under PFUTP Regulations, it is necessary that there is a dealing in securities by a person and inducement to deal in the securities. In the present case, Noticee has neither dealt in securities nor has it induced others to deal in securities.

31.7 Out of the borrowed sum of INR 365.90 Crores from RHFL, INR 163.50 Crores has been repaid and the remaining amount could not be paid because of liquidity crunch. Further, out of the total amount onward lent, a sum of INR 237.66 Crores has been received back by the Noticee.

31.8 With respect to fund transfer to alleged promoter linked entities of RHFL, it is submitted that such loans were provided to entities to take advantage of higher interest component and to derive profits.

31.9 With respect to same date of approval and disbursal of loan, it is submitted that Noticee and RHFL were in discussion for the disbursal of loans as Noticee required funds and only when the discussion fructified that the application was made and loans were disbursed. A delay in documentation cannot lead to a finding of fraud.

31.10 Interim Order does not meet the test of preponderance of probabilities which is required to establish a charge under PFUTP Regulations.

32. NOTICEE NO. 16

32.1 Noticee is a private limited company and shares of the Noticee are not listed on any stock exchange.

32.2 SEBI does not have jurisdiction over the Noticee as SEBI is a regulator of Indian securities market and Noticee is a private unlisted company. Noticee has never dealt in the securities market and merely because Noticee engaged in certain borrowing and lending transactions, which has no nexus with trading in shares or dealing in securities market, SEBI cannot presume jurisdiction over the Noticee and pass directions against Noticee.

32.3 SEBI has alleged violation of LODR Regulations by Noticee. However, LODR Regulations are only applicable to listed entities.

32.4 Noticee being an unlisted private company, that does not deal in shares, cannot be construed as a 'person associated with the securities market'. Thus, no direction can be passed by SEBI against the Noticee.

32.5 For an activity to be labelled as 'fraud' under PFUTP Regulations, there should be dealing in securities/ inducement to deal in securities and in the present matter, there is no allegation against the Noticee that it had dealt in securities or induced another entity to deal in securities.

33. NOTICEE NO. 17

- 33.1 Noticee is a private limited company incorporated in 2008 and has no connection/ dealings with securities market. Noticee is an independent entity managed and controlled by its own set of functionaries.
- 33.2 The Interim Order has caused grave damage to the market reputation of the Noticee and tarnished its commercial prospects.
- 33.3 As there was no direction in the Interim Order against the Noticee, the requirement of pre-decisional hearing could have been complied with.
- 33.4 Noticee is an unlisted entity and does not operate in the securities market and is therefore beyond the jurisdictional purview of SEBI. Merely executing a loan transaction cannot bring Noticee within SEBI's jurisdiction.
- 33.5 The allegation of violation of LODR Regulations is baseless as the same is only applicable on the listed entities.
- 33.6 The essential ingredient for alleging violation of PFUTP Regulations is to deal in securities or to induce another party to deal in securities which is not met for the Noticee.
- 33.7 Nothing has been brought on record to show collusion between Noticee and RHFL or between Noticee and onward borrowers.
- 33.8 On the allegation of loans being approved and disbursed on same date on which loan applications were made, it is submitted that Noticee had been discussing loan disbursement with RHFL and paperwork was put in place only when a green signal was observed from RHFL. In any case, Noticee was the recipient of the loan and not the decision maker with regard to disbursement of loan.
- 33.9 The test of preponderance of probabilities is not satisfied in the matter as allegation of fraud cannot be on the basis of mere surmises and conjectures.

34. NOTICEE NO. 18

- 34.1 Noticee is a private limited company and is neither in the business of dealing in securities nor associated with the securities market.
- 34.2 Noticee approached RHFL to raise some funds to meet its working capital requirement. Such loans were onward lent to certain other entities who were in need of funds.
- 34.3 Interim Order goes on to make conclusive finding that Noticee is a conduit to the alleged fraud without providing any evidence to that effect. SCN has caused reputational damage to Noticee.
- 34.4 In order to allege fraud under PFUTP Regulations, the essential requirement is that fraud has to be in relation to securities market. Merely taking of loan and granting of loans/ repaying existing loans cannot be said to be fraud. Noticee neither dealt in the securities of RHFL nor induced anyone to deal in the securities.
- 34.5 The loan transactions are genuine and bonafide transactions. Out of loan of INR 375 Crores taken from RHFL, INR 203.50 Crores has been repaid to RHFL by the Noticee and despite financial difficulties, Noticee is exploring the possibility of repayment of balance amount.
- 34.6 SCN does not allege or bring anything on record to show that the Noticee was acting under the instruction of RHFL/ its KMPs or any of its promoter linked entities to divert funds to promoter linked entities. Noticee is an independent entity and merely because of common address and common directorships with certain other entities, SEBI has alleged that Noticee is colluding with RHFL/ its promoter linked entities.
- 34.7 Interim Order does not meet the standard of preponderance of probabilities which is required to establish a charge under PFUTP Regulations. In the matter of Shruti Vora, the Hon'ble SAT in its order dated March 22, 2021 has been held that existence of one or two attendant

circumstances cannot be said to meet the test of preponderance of probabilities.

34.8 Noticee is alleged to be in violation of LODR Regulations. As Noticee is an unlisted company, LODR Regulations are not applicable on it.

35. NOTICEE NO. 19

35.1 Noticee is a private limited company and managed by its own functionaries. The loans were taken by Noticee to meet its existing debt obligation and working capital requirements.

35.2 The Interim Order has been passed without affording an opportunity of hearing to the Noticee.

35.3 As Noticee is not a listed company, SEBI does not have jurisdiction over the transactions of Noticee.

35.4 The charge of violation of Section 12A of the SEBI Act and PFUTP Regulations is untenable in law as this charge can only be sustained when there is a direct or indirect dealing in securities by a person. In the present case, taking of loans cannot be said to be dealing in securities.

35.5 Interim Order is liable to be quashed and set aside as it suffers from inordinate delay.

35.6 Common address with other GPCL borrowers and an onward borrower does not in any manner demonstrate involvement of Noticee in the alleged fraud in relation to RHFL.

35.7 On the allegation that one of the directors of Noticee is also a director in Sapphire Cable & Services Private Limited, it is submitted that Sapphire is not a party to the present proceedings and there are no loan transactions between Sapphire and the Noticee.

35.8 On the approval and disbursal of loan on the same date on which application for such loan was made by Noticee to RHFL, it is submitted that

Noticee and RHFL were in discussion with regards to disbursal of loan and only when the discussion between the parties fructified, the application was made and loan disbursed.

35.9 A mere existence of one or two connecting factors would not indicate fraud and reliance is placed on the decision of Hon'ble SAT in HB Stockholdings Ltd. v. SEBI.

35.10 In order to sustain charge of Noticee being a part of a fraudulent scheme by which funds of RHFL were knowingly transferred to entities connected to promoters of RHFL through GPC Loans, a collusion between RHFL and its KMPs with Noticee or collusion between Noticee and RCFL has to be shown. However, the documents relied upon by SEBI do not display any collusion.

35.11 The standard of preponderance of probabilities is not met in the matter.

35.12 Noticee is alleged to be in violation of LODR Regulations. As Noticee is an unlisted company, LODR Regulations are not applicable on it.

36. NOTICEE NO. 20

36.1 Noticee is a private limited company involved in providing services in relation to construction contracts in infrastructure sector and private organisations. The operating revenues of Noticee was INR 455.38 Crores for the financial year ended on March 31, 2020.

36.2 Noticee is an independent entity and managed by its own functionaries. Though Noticee is a part of the promoter group of RHFL merely for technical reasons, its directors are unaware of the internal functioning and day to day operations of RHFL.

36.3 Noticee had approached RHFL for loans to meet its working capital requirements and such loans were taken in a bonafide manner. Similarly, Noticee had approached the alleged PILE entities for working capital loans. Out of the total loan amount of INR 788.97 Crores taken in Financial Year 2018-19, INR 484.44 Crores has been repaid by Noticee.

- 36.4 Mere taking of loans from HFL does not in any manner indicate fraudulent conduct by the Noticee. There is no evidence to show that Noticee was aware that funds being borrowed from the alleged PILE entities was being sourced from RHFL irregularly or otherwise.
- 36.5 Interim Order has been passed without providing Noticee with a pre-decisional hearing which has prejudiced the Noticee.
- 36.6 As Noticee is not a listed company, SEBI does not have jurisdiction over the transactions of Noticee.
- 36.7 The charge of violation of Section 12A of the SEBI Act and PFUTP Regulations is untenable in law as this charge can only be sustained when there is a direct or indirect dealing in securities by a person. In the present case, taking of loans cannot be said to be dealing in securities.
- 36.8 Interim Order is liable to be quashed and set aside as it suffers from inordinate delay.
- 36.9 Mere existence of one or two connecting factors do not indicate fraud and reliance is placed on Hon'ble SAT's decision in HB Stockholdings Ltd. v. SEBI to submit that there has to be evidence on record to abundantly display connivance on the part of Noticee.
- 36.10 The factum of Reliance Infrastructure Limited providing guarantees to Noticee's lenders (RHFL and/ or alleged PILEs) does not indicate any wrongdoing as there is nothing illegal/ unlawful in a group company providing guarantees to the lenders of a borrower.
- 36.11 On the approval and disbursal of loan on the same date on which application for such loan was made by Noticee to RHFL, it is submitted that a delay in completion of documentation does not indicate collusion.
- 36.12 In order to sustain charge of Noticee being a part of a fraudulent scheme by which funds of RHFL were knowingly transferred to entities connected to promoters of RHFL through GPC Loans, a collusion between RHFL and its

KMPs with Noticee or collusion between Noticee and RCFL has to be shown. However, the documents relied upon by SEBI do not display any collusion.

36.13 It has to be displayed with evidence that Noticee was aware of the source of funds of the PILEs from which it borrowed funds. Noticee was not aware that such PILEs had received such funds from RHFL and that too with any alleged irregularity. Similarly, with regards to loans taken directly from RHFL, it has to be displayed with evidence that Noticee would know of the so called irregularities in sanctioning of such loans. Noticee is not aware of any such irregularity.

36.14 The standard of preponderance of probabilities is not met in the matter.

36.15 Noticee is alleged to be in violation of LODR Regulations. As Noticee is an unlisted company, LODR Regulations are not applicable on it.

37. NOTICEE NO. 21

37.1 Noticee is a private limited company and a part of the Reliance Group of Companies.

37.2 Interim Order was passed without providing an opportunity of pre-decisional hearing.

37.3 Noticee is an unlisted entity and it has entered into loan transactions with other unlisted entities. SEBI has failed to show as to how the actions of Noticee has any effect on the investors of the securities market or any impact on the securities market. SEBI has erroneously assumed jurisdiction upon itself.

37.4 The provisions of LODR Regulations can only be applied to a listed entity and its functionaries. As Noticee is an unlisted entity, LODR Regulations is not applicable on Noticee.

37.5 'Fraud' as defined under PFUTP Regulations has to be in relation to the securities. It is not the case of SEBI that Noticee has dealt in securities.

Nothing has been brought on record that by accepting loans from PILEs, Noticee has induced any person to deal in securities.

37.6 With respect to transaction of INR 80 lakhs with Gamesa Investment Management Private Limited (Noticee No. 14), it is submitted that the same was a repayment transaction and not a loan transaction.

37.7 Connection between various entities and Noticee does not indicate that Noticee was part of any alleged fraud. The loans borrowed from alleged PILE entities were independent decisions taken by Noticee and RHFL had no role to play in it. One or two attendant circumstances cannot lead to a definitive conclusion establishing the guilt of Noticee and for the same reliance is placed on decisions of Hon'ble SAT in the matters of Shruti Vora v. SEBI and HB Stockholdings Ltd. v. SEBI.

37.8 There is nothing wrong for a group company to give guarantees towards any borrowing of another group company.

37.9 The issuance of OCDs represents a commercial understanding between two entities as per their commercial wisdom and there is nothing illegal in repayment of loans via issuance of debentures. The fact that OCDs are unquoted cannot by any means lead to a conclusion that they are issued to create an accounting fiction.

37.10 With respect to charge of collusion, there is no evidence to show that Noticee had control over RHFL or its KMPs so as to direct RHFL and its KMPs to provide loans to its lenders.

37.11 The standard of preponderance of probabilities with respect to violation of PFUTP Regulations is not met in the instant matter.

38. NOTICEE NO. 22

38.1 Noticee is a private limited company.

- 38.2 Interim Order was passed without providing an opportunity of pre-decisional hearing.
- 38.3 Noticee was in need of funds and approached Gamesa Investment Management Private Limited (Noticee No. 14). Noticee did not know or was supposed to know the source of funds of Noticee No. 14 and Noticee was not aware of any illegality/ deviations in granting of loans by RHFL to Noticee No. 14. The loan of INR 14.37 Crores taken from Noticee No. 14 has been fully repaid with interest in May 2020.
- 38.4 Though Noticee is a subsidiary of Reliance Capital Limited, the fact that loan borrowed was repaid clearly demonstrates that Noticee was not the ultimate beneficiary of funds allegedly siphoned off from RHFL.
- 38.5 Noticee is an unlisted entity and it has entered into loan transactions with other unlisted entities. SEBI has failed to show as to how the actions of Noticee has any effect on the investors of the securities market or any impact on the securities market. SEBI has erroneously assumed jurisdiction upon itself.
- 38.6 The provisions of LODR Regulations can only be applied to a listed entity and its functionaries. As Noticee is an unlisted entity, LODR Regulations is not applicable on Noticee.
- 38.7 'Fraud' as defined under PFUTP Regulations has to be in relation to the securities. It is not the case of SEBI that Noticee has dealt in securities. Nothing has been brought on record that by accepting loans from PILEs, Noticee has induced any person to deal in securities.
- 38.8 With respect to charge of collusion, there is no evidence to show that Noticee had control over RHFL or its KMPs or Noticee No. 14 so as to direct RHFL and its KMPs to provide loan to Noticee No. 14 and thereafter direct Noticee No. 14 to provide it with a loan.
- 38.9 The standard of preponderance of probabilities with respect to violation of PFUTP Regulations is not met in the instant matter.

39. NOTICEE NO. 23

39.1 Pursuant to Noticee defaulting *inter alia* in timely payment/ repayment of its financial creditors in 2019, the lenders of Noticee undertook a resolution of Noticee in accordance with RBI Framework. As part of the resolution process, the Resolution Plan submitted by Authum was approved by lenders of Noticee. Vide its judgment dated August 30, 2022, the Hon'ble Supreme Court *inter alia* exercised its powers under Article 142 of the Constitution of India and permitted the Resolution Plan to be implemented. Subsequently, with approval of RBI on October 01, 2022, change of management and control of Noticee was effected and Noticee became a wholly owned subsidiary of Authum.

39.2 RBI Framework was issued by the RBI under Section 35AB of the Banking Regulation Act, 1949 and hence, has the force of law. RBI Framework was brought with an objective to provide a mode for the early recognition and resolution of stressed assets in a time bound manner in order to avoid impending insolvency proceedings. SEBI has committed an error of fact and law by failing to consider that the principles analogous to IBC relating to protection of successful resolution applicants ought to be reasonably extended and applied to resolution applicants under the RBI Framework.

39.3 During the period of investigation, Authum was neither in management nor in control of Noticee. Since Noticee is now wholly owned subsidiary of Authum, any liability on or prosecution against Noticee adversely affects the entire scheme of resolution under the Resolution Plan and defeats the letter and spirit of IBC as well as RBI Framework.

39.4 Noticee is no longer a related party of RHFL or any other Noticees to the SCN.

39.5 In the matter of SEBI v. Rajkumar Nagpal & Ors., the Hon'ble Supreme Court held that by its conduct post the issuance of RBI Framework, SEBI subscribed to the overall framework of the RBI Circular. Therefore, the object

and purpose of such pre-insolvency resolution under RBI framework ought to be kept in mind while determining if SEBI can levy penalties on Noticee or its new management post successful resolution.

39.6 The parent company of Noticee, Reliance Capital Ltd., was undergoing insolvency resolution under IBC. By way of supplemental resolution implementation memorandum, Authum had purchased all securities of Noticee held by Reliance Capital Ltd. in a sale undertaken by the administrator of Reliance Capital Limited and all rights and protective provisions under the IBC that would be available to a resolution applicant thereunder ought to be extended to the Noticee. Accordingly, Authum and Noticee's new management cannot be penalized, specifically, in view of Section 32A of the IBC.

39.7 Noticee cannot be held liable for any lack of diligence being extended by the creditor while disbursing a loan nor can it be suggested that the recipient of a loan is required to assess the ability of the creditor to provide such loans or advances.

39.8 Other than by virtue of Noticee being a subsidiary of Reliance Capital Ltd. during the relevant investigation period, SCN does not allege any other direct or indirect relation between Noticee and RHFL. There is no allegation of any relation or connection between Noticee and any of the conduit entities.

39.9 The insinuation that an entity can be held liable or be penalized solely on account of funds being received from a company allegedly connected to its promoter group is *ex-facie* baseless and frivolous.

39.10 Out of the alleged sum of INR 962.78 Crores received by Noticee from the 'conduit entities', a sum of more than INR 363 Crores was repaid by Noticee prior to issuance of SCN. Further, the entire debt availed by Noticee has already been resolved by Authum in accordance with the resolution plan approved under the RBI Framework.

- 39.11 SCN fails to demonstrate any correlation between the funds received by Noticee as loans from the conduit entities and RHFL.
- 39.12 Noticee has no obligation to comply with LODR Regulations for listed securities of RHFL.
- 39.13 Regulation 3 of the PFUTP Regulations is restricted to certain dealings in securities. There is no allegation in the SCN about Noticee dealing in securities or that Noticee's actions or inactions in any manner affected share price of RHFL.
- 39.14 Regulation 4 of the PFUTP Regulations is not attracted in Noticee's case as SCN does not allege or make out any case of Noticee having indulged in a manipulative, fraudulent or an unfair trade practice in securities market.
- 39.15 SEBI has failed to demonstrate or even aver as to what alleged benefit was received by the Noticee. SEBI has neither pleaded nor proved the ingredients of abetment as required under law in order to impose any liability on Noticee.
- 39.16 The term PILE is not defined or referred to anywhere in the SEBI Act or any of the Regulations promulgated thereunder. Therefore, Noticee cannot be made liable on basis of such alleged relationships that are neither recognized nor provided for in law.
- 39.17 Only entities who are regulated under the SEBI Act are liable under the penal provisions of SEBI Act. As Noticee is not a listed entity, it cannot be said to "indulge" in fraudulent and unfair trade practices.
- 39.18 For establishing a charge of aiding or abetting the commission of an offence, the principles of "meeting of minds" must be satisfied i.e. such person has allegedly aided or abetted the primary violator in commission of an offence and had a clear and conscious intention to participate in commission of such an offence. In the instant matter, no such meeting of minds has taken place. Noticee was neither privy to nor possessed any knowledge of alleged violations purportedly committed by RHFL.

40. NOTICEE NO. 24

- 40.1 Noticee is an unlisted public limited company managed by its own functionaries. Noticee has no dealings/ associations/ operations with the securities market.
- 40.2 SEBI has the jurisdiction to proceed against an entity only when such entity is associated with the securities market. As Noticee is an unlisted entity, SEBI erred in assuming jurisdiction over the Noticee in the present matter.
- 40.3 There was no urgency to proceed against the Noticee without a pre-decisional hearing.
- 40.4 There has been delay on part of SEBI in the instant proceedings.
- 40.5 The loan amount of INR 11 Crores borrowed from Gamesa Investment Management Private Limited (Noticee No. 14) was repaid on August 20, 2019. In view of the same, allegation that funds of RHFL have been routed through Noticee No. 14 to the Noticee is unsustainable.
- 40.6 GPCL are a regular business activity of RHFL and is permitted.
- 40.7 Merely borrowing funds does not constitute fraud under the PFUTP Regulations. In order to constitute fraud, it is essential that there is either dealing in securities or inducement to deal in securities with a manipulative intent to affect market information. SEBI has failed to point out any fact where Noticee either dealt in any securities or induced any person to deal in securities.
- 40.8 On the allegation of loan being sanctioned on the date of application, Noticee submits that its directors were in discussion with the management of RHFL much prior to the date of application and mere delay in documentation cannot lead to a finding of fraud.
- 40.9 In order to sustain allegation of fraud, collusion on the part of the Noticee with RHFL and its KMPs and Gamesa is a pre-requirement. In order to demonstrate collusion, SCN states that Noticee shares common address with

a GPCL borrower, Noticee is an enterprise over which Noticee No. 2 has significant influence as per Annual Report of Reliance Capital and Reliance Power has given guarantee to RHFL for the loan taken by the Noticee. Noticee submits that none of the aforementioned facts could indicate any collusion between Noticee and RHFL/ Gamesa.

40.10 Noticee is a subsidiary of Reliance Power Limited and there is nothing unusual in a parent company providing a guarantee for loans taken by its subsidiary

41. NOTICEE NO. 25

41.1 Noticee is an unlisted entity and has no association or connection with the securities market. Noticee does not deal in the securities market and cannot be said to be a person associated therewith. The mere fact that Noticee borrowed certain funds from an unlisted entity cannot confer jurisdiction on SEBI.

41.2 Interim Order has been passed in complete disregard of the principles of *audi alterem partem* and natural justice that are quintessential to any judicial or quasi-judicial proceedings.

41.3 SCN is liable to be set aside and quashed as it suffers from inordinate delay and laches.

41.4 In order to prove the allegations of fraud, SEBI has to prove collusion of the Noticee with RHFL, its KMPs as well as the PILE from which Noticee received the loan. However, no evidence has been brought on record to display any such collusion.

41.5 Noticee did not know and was not supposed to know the source of funds of the PILE.

41.6 Noticee has repaid the loan taken from Indian Agri Services Private Limited (Noticee No. 7). In light of such repayment, the allegation of the

Noticee being the ultimate beneficiary of funds from PILEs and/ or assisting in commission of the alleged fraud does not hold any ground.

41.7 In order to establish fraud under PFUTP Regulations, the act has to be with respect to dealing in securities or inducing another person to deal in securities. The alleged act of Noticee in obtaining loan has no connection with dealing in securities or inducing other person to deal in securities.

41.8 SCN fails to meet the preponderance of probabilities standard to establish a violation of PFUTP Regulations. Mere existence of one or two attendant circumstances will not definitely lead to the satisfaction of the preponderance of probability standard against Noticee.

41.9 Doctrine of doubtful penalization is squarely applicable to the present case in light of submissions made by Noticee and therefore, no penalty should be imposed against the Noticee.

42. NOTICEE NO. 26

Noticee, vide its letter dated March 02, 2023, submitted that Hon'ble NCLT, Mumbai has initiated the Corporate Insolvency Resolution Process of Noticee as per IBC vide its order dated February 24, 2023 and moratorium under Section 14 of the IBC for all legal proceedings against the Noticee has commenced from the date of the Order of Hon'ble NCLT.

43. NOTICEE NO. 27

43.1 Noticee is an unlisted entity and has no association or connection with the securities market. Noticee does not deal in the securities market and cannot be said to be a person associated therewith. The mere fact that Noticee borrowed certain funds from an unlisted entity cannot confer jurisdiction on SEBI.

- 43.2 Interim Order has been passed in complete disregard of the principles of *audi alterem partem* and natural justice that are quintessential to any judicial or quasi-judicial proceedings.
- 43.3 SCN is liable to be set aside and quashed as it suffers from inordinate delay and laches.
- 43.4 In order to prove the allegations of fraud, SEBI has to prove collusion of the Noticee with RHFL, its KMPs as well as the PILE from which Noticee received the loan. However, no evidence has been brought on record to display any such collusion.
- 43.5 Noticee did not know and was not supposed to know the source of funds of the PILE.
- 43.6 In order to establish fraud under PFUTP Regulations, the act has to be with respect to dealing in securities or inducing another person to deal in securities. The alleged act of Noticee in obtaining loan has no connection with dealing in securities or inducing other person to deal in securities.
- 43.7 SCN fails to meet the preponderance of probabilities standard to establish a violation of PFUTP Regulations. Mere existence of one or two attendant circumstances will not definitely lead to the satisfaction of the preponderance of probability standard against Noticee.
- 43.8 Doctrine of doubtful penalization is squarely applicable to the present case in light of submissions made by Noticee and therefore, no penalty should be imposed against the Noticee.

44. NOTICEE NO. 28

In response to the Interim Order cum SCN, SEBI received a letter dated February 28, 2022 from Mr. Nageswara Rao Y, Administrator of the Noticee wherein the following was submitted:

44.1 In exercise of its powers conferred under Section 45-IE(1) of the Reserve Bank of India Act, RBI has superseded the Board of Directors of Noticee on November 29, 2021 and appointed Mr. Nageswara Rao Y as the administrator of the Noticee.

44.2 Thereafter, an application for initiation of CIRP against the Noticee was filed on December 02, 2021 under IBC before the Hon'ble NCLT, Mumbai. Vide an order dated December 06, 2021, the Hon'ble NCLT commenced CIRP and appointed Mr. Nageswara Rao Y as administrator of the Noticee.

44.3 Pursuant to commencement of CIRP, a moratorium has been imposed on institution or continuation of proceedings against the Noticee. As the moratorium is in effect, SEBI does not have the jurisdiction to institute or continue proceedings against the Noticee and reliance is placed on the decision of Hon'ble SAT in the matter of Dewan Housing Finance Corporation Ltd. v. SEBI.

45. The relevant provisions of SEBI Act, 1992, LODR Regulations and PFUTP Regulations, are reproduced hereunder for ready reference:

SEBI Act, 1992

11C.

(5) Any person, directed to make an investigation under sub-section (1), may examine on oath, any manager, managing director, officer and other employee of any intermediary or any person associated with securities market in any manner, in relation to the affairs of his business and may administer an oath accordingly and for that purpose may require any of those persons to appear before it personally.

(6) If any person fails without reasonable cause or refuses-

(a) to produce to the Investigating Authority or any person authorised by it in this behalf any book, register, other document and record which is his duty under sub-section (2) or sub-section (3) to produce; or

(b) to furnish any information which is his duty under sub-section (3) to furnish; or

(c) to appear before the Investigating Authority personally when required to do so under sub-section (5) or to answer any question which is put to him by the Investigating Authority in pursuance of that sub-section; or

(d) to sign the notes of any examination referred to in sub-section (7),

he shall be punishable with imprisonment for a term which may extend to one year, or with fine, which may extend to one crore rupees, or with both, and also with a further fine which may extend to five lakh rupees for every day after the first during which the failure or refusal continues.

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

SEBI LODR Regulations

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

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

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

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

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

(g) The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognised stock exchange(s) in this regard and as may be applicable.

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

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

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

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

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

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

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

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

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

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

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

4. (2) (f)- Responsibilities of the Board of Directors:

The Board of Directors of the Listed Entity shall have the following responsibilities:

(ii) Key functions of the Board of Directors –

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

(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

(8) Overseeing the process of disclosure and communications.

(iii) Other responsibilities:

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

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

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

....

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

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

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

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

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

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

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

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

(c)The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India:

Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

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

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

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

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

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

SEBI PFUTP Regulations

3. Prohibition of certain dealings in securities

No person shall directly or indirectly –

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

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

d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognized stock exchange in contravention of the provisions of the Act or the rules and the regulations made there under.

4. Prohibition of manipulative, fraudulent and unfair trade practices

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

(2) *Dealing in securities shall be deemed to be a fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following, namely:—*

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

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

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

D. ISSUES FOR CONSIDERATION

46. After considering the SCN and the replies filed by Noticees, the following issues arise for consideration:

Part I- Preliminary Objections

- (i) Whether the Resolution Plan for Noticee Nos. 1 and 23 under the RBI Framework limit/ restrict the present SEBI proceedings?
- (ii) Whether SEBI can proceed against Noticee No. 2 in view of the interim moratorium in force under Section 96 of the IBC?
- (iii) Whether the decision of Hon'ble Supreme Court in the matter of SBI & Ors. v. Rajesh Agarwal & Ors. bars the present proceedings?
- (iv) Whether SEBI can continue its proceedings against Noticee Nos. 26 and 28 in view of the moratorium under Section 14 of the IBC?
- (v) Whether SEBI is prevented from continuing with present proceedings against RHFL as it is under the regulatory purview of NHB/ RBI?
- (vi) Whether SEBI can proceed against GPCL Borrowers/ Onward Borrowers since they are unlisted entities?
- (vii) Whether there has been inordinate delay in the proceedings which has vitiated the proceedings?

Part II- Issues on Merits

- (a) Whether the Noticees can be said to have engaged in a fraudulent scheme to divert funds of RHFL for the benefit of Noticee No. 2 and Reliance ADAG companies?
- (b) Whether Noticees 1, 3-5 can be said to have failed to make disclosures as required under securities law?
- (c) Whether the Noticees can be said to have violated PFUTP Regulations?
- (d) Whether Noticee No. 3 can be said to have made false statement(s) during the investigation thereby violating Section 11C(5) and (6) of the SEBI Act, 1992?

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PART I – PRELIMINARY OBJECTIONS

47. Whether the Resolution Plans for Noticee Nos. 1 and 23 under the RBI framework limit/ restrict the present proceedings?

47.1 Noticee No. 1 (RHFL) and 23 (RCFL) have submitted, vide their written replies dated July 10, 2023 and April 18, 2023 respectively, that they have separately undergone resolution in terms of Reserve Bank of India (Prudential Framework for Resolution of Stressed Assets) Directions, 2019 dated June 7, 2019 (“**RBI Framework**”). The Hon’ble Supreme Court, vide its judgments dated March 03, 2023² and August 30, 2022³ has approved the resolution plans submitted by the successful Resolution Applicant, Authum Investment and Infrastructure Ltd. (“**Authum**”), for both Noticee No. 1 and Noticee No. 23 respectively. In the context of these resolution plans, Noticee Nos. 1 and 23 have contended as follows:

Noticee No. 1

- (i) In terms of the Resolution Plan, the entire business undertaking of RHFL (Noticee No. 1) stands transferred to Authum through its wholly owned subsidiary on a going concern basis.
- (ii) As on date, while the corporate shell of the Company survives, it has no business whatsoever, and has negligible assets. The Company, thus, “*is a skeleton without soul or flesh, and has to now mandatorily relinquish its license.*” Therefore, the actions contemplated under the Interim Order are infructuous.

Noticee No. 23

- (i) Authum became the new owner and promoter of RCFL (Noticee No. 23) upon approval of the Resolution Plan.
- (ii) The primary purpose of RBI Framework is the early recognition and timely resolution of stressed assets thereby possibly avoiding CIRP/ insolvency

² Authum Investment and Infrastructure Limited v. R.K. Mohatta Family Trust and Ors. (C.A. No. 1581/2023) with Reliance Home Finance Limited v. R.K. Mohatta Family Trust (C.A. No. 1582/2023)

³ SEBI v. Rajkumar Nagpal & Ors. (C.A. No. 5247 of 2022)

- proceedings. This is evident from the fact that RBI Framework becomes applicable only upon the occurrence of a 'default' as defined in the IBC.
- (iii) Any penalty levied by SEBI post successful resolution of RCFL under RBI Framework would amount to punishing Authum for alleged violations committed prior to successful resolution. Such a scenario would most likely result in companies going into Corporate Insolvency Resolution Process ("**CIRP**") under IBC instead of early and effective recognition and resolution of such stressed assets under the RBI Framework.
 - (iv) Authum had also purchased from Reliance Capital Limited ("**RCL**") shares/ securities issued by RCFL in a sale under IBC undertaken by Administrator of RCL. Therefore, all rights and protective provisions under IBC would be available to the Noticee (i.e. RCFL) and new management of RCFL cannot be penalized, specifically in view of Section 32A of the IBC.
 - (v) RBI Framework was issued under Section 35AB of the Banking Regulation Act, 1949 and hence, has the force of law. The objective of RBI Framework is to provide a mode for early recognition and resolution of stressed assets in a time bound manner and avoid lengthy process of insolvency resolution under IBC before the Hon'ble NCLT. By continuing with the proceedings, SEBI is effectively discouraging potential resolution applicants from submitting resolution plans under RBI Framework and instead, encouraging only IBC resolutions. SEBI has committed an error of fact and law by failing to consider that the principles analogous to IBC relating to protection of successful resolution applicants ought to be reasonably extended and applied to resolution applicants under the RBI Framework.
 - (vi) Authum's resolution plan for RCFL included the settlement and extinguishment of all claims, including those of government authorities. By continuing with these proceedings despite resolution of RCFL under RBI Framework, SEBI has ignored the judgment of the Hon'ble Supreme Court in the matter of Rajkumar Nagpal (*supra*) wherein Hon'ble Supreme Court held that by its conduct post the issuance of RBI Framework, SEBI subscribed to the overall framework of RBI Circular.

47.2 I have considered the above submissions of Noticees and note as follows:

- (i) In terms of the Resolution Plan, Authum has designated Noticee No. 23/ RCFL, being a wholly owned subsidiary of Authum, as the entity/ special purpose vehicle for acquiring the business of RHFL and to implement the Resolution Plan with respect to Noticee No. 1/ RHFL.
- (ii) The Authorised Representative of Noticee No. 1 (*which has been taken over by Authum*) has conceded that there is no prohibition on SEBI under RBI Framework to continue proceedings against it upon approval of its resolution plan while questioning the need for continuing with the proceedings. However, Noticee No. 23, which is under the same management (Authum) at this time and also looking after the affairs of Noticee No. 1 now for implementing Authum's Resolution Plan, has taken a different position by contending that SEBI proceedings would undermine the purpose of RBI Framework and SEBI's actions seem to disregard the judgment of the Hon'ble Supreme Court in Rajkumar Nagpal matter (*supra*).
- (iii) Upon perusal of the RBI Framework, I note that para 4 of the said notification records the purpose of the Framework as follows: - "*These directions are issued with a view to providing a framework for early recognition, reporting and time bound resolution of stressed assets*". This Framework was applicable to the entities regulated by RBI and was issued under Section 35AA of the Banking Regulation Act, 1949 which authorizes RBI to issue directions to banking companies to initiate insolvency resolution process.
- (iv) As per the submissions of Noticees, it is understood that RBI Framework is implemented before initiation of insolvency proceedings under IBC with a view that proceedings under IBC take much longer time and this Framework would result in quicker and higher recoveries. Accordingly, I find that RBI Framework's resolution may offer a measure to prevent insolvency but does not statutorily protect them from other legal actions.
- (v) With respect to participation of SEBI in Rajkumar Nagpal matter (*supra*), the factual background of the said matter, in brief, is discussed below:

- (a) RCFL issued Non-Convertible Debentures to various persons ('debenture holders') under three Debenture Trustee Deeds and RCFL committed its first default under the said Deeds in March 2019.
- (b) RCFL had also taken loans from various financial institutions. As RCFL defaulted in its obligations for the said loans, these financial institutions initiated proceedings for resolution under RBI Framework. This Framework was applicable to banks and specified categories of lenders and other investors were outside its purview. In pursuance of the proceedings under RBI Framework, the Resolution Plan submitted by Authum was approved by RCFL's lenders on July 15, 2021.
- (c) Meanwhile, SEBI had issued a circular dated October 13, 2020 titled 'Standardisation of procedure to be followed by Debenture Trustee(s) in case of 'default' by issuers of listed debt securities' ('SEBI Circular').
- (d) Some of the debenture holders instituted a suit before a Single Judge of the Hon'ble Bombay High Court for protection of their interests with respect to the amounts due to them by RCFL. In the said proceedings, the Hon'ble High Court opined *prima facie* that a meeting of debenture holders was required but it could not recommend the manner in which the said meeting should be convened. Debenture Trustee sought a clarification from SEBI for the same and SEBI issued a letter *inter alia* clarifying that voting would have to be conducted in accordance with SEBI Circular. Further, SEBI in its affidavit submitted that debenture trustees are obligated to comply with its circular even though the event of default has taken place prior to issuance of the Circular. However, the Hon'ble Court held that SEBI Circular could not be permitted to operate retrospectively and did not govern the Debenture Trustee Deeds. The appeal filed by SEBI before the Division Bench of the Hon'ble High Court was also dismissed.
- (e) SEBI had filed an appeal being SEBI v. Rajkumar Nagpal & Ors. (*supra*) before the Hon'ble Supreme Court against the order of the Hon'ble High Court wherein the issue to be decided was whether the debenture

holders and other parties were required to follow the procedure under the SEBI Circular. The Hon'ble Supreme Court in its judgment dated August 30, 2022 observed that in its Circular, SEBI had referred to Resolution under RBI Framework and permitted debenture holders to participate in the process specified under RBI Framework along with conditions under which debenture holders could access the Resolution Plan and participate in its formulation. It was in this context that Hon'ble Court observed that SEBI subscribed to the overall framework of RBI Circular. Hon'ble Supreme Court held that SEBI Circular was applicable in the said proceedings. However, Hon'ble Supreme Court also observed that since the Resolution Plan was extremely beneficial to debenture holders, a different voting mechanism under SEBI Circular, *though right in law*, would further delay the resolution process. Therefore, Hon'ble Supreme Court considered it necessary to exercise its power under Article 142 of the Constitution of India and approved the Resolution Plan as it observed that *unscrambling of the resolution process will not only prove time-consuming, but may also adversely affect the agreed realized gains to the retail debenture holders, who have already consented to the negotiated settlement before the High Court.*

(f) The Interim Order cum SCN dated February 11, 2022 was not an issue considered by the Hon'ble Bombay High Court or the Hon'ble Supreme Court. The decision of the Hon'ble Supreme Court was only in the context of the applicability of SEBI Circular dated October 13, 2020 to the Resolution Plan. The approval of the Resolution Plan cannot be read to have changed the nature or authority of the Resolution Plan. In other words, the approval does not enhance the scope of the resolution and provide the resolution applicant a legal protection that the RBI Framework does not provide in the first place.

- (vi) With respect to the claim of protection provided to RCFL (Noticee No. 23) under Section 32A of the IBC for prior offences, I note that RCL held -
- equity shares of RCFL/ Noticee No. 23,

- non-convertible cumulative compulsorily redeemable preference shares of RCFL, and
- Inter-Corporate Deposits extended by RCL to RCFL
(all cumulatively referred as 'Target Securities').

Authum had purchased the Target Securities of RCFL held by RCL by executing a supplemental resolution implementation memorandum with Administrator of RCL appointed by RBI under the IBC. As per Section 32A of the IBC, the protection from liability for prior offences is provided only to the Corporate Debtor or the new management of the Corporate Debtor. In this case, RCFL (Noticee No. 23) was neither. RCL has only sold the Target securities held by it in RCFL to Authum. Therefore, RCFL is not eligible to claim the protection provided by Section 32A of the IBC.

47.3 In view of the above, the submissions/ objections of Noticee Nos. 1 & 23 cannot be accepted. I find that the Resolution Plans approved under the RBI Framework do not restrict/ limit the present SEBI proceedings.

48. Whether SEBI can proceed against Noticee No. 2 in view of the Interim Moratorium under Section 96 of the IBC? Whether jurisdictional issue needs to be determined through separate order?

48.1 Noticee No. 2 (Anil D. Ambani) has raised a preliminary objection vide written submissions dated February 24, 2023 and February 24, 2024 that the instant SEBI proceedings against Noticee are barred in law since a statutory moratorium in terms of Section 96 of IBC is in force. Noticee submitted that State Bank of India has filed applications under Section 95 of the IBC against the Noticee in March 2020 and consequently, a moratorium under Section 96 of the IBC with respect to Noticee No. 2 came into force w.e.f. March 12, 2020, which is continuing.

48.2 In the context of the aforesaid preliminary objection, Noticee has made the following arguments:

- (i) Pursuant to Section 96 of IBC, after an application is filed under Section 95 of IBC, there is a statutory bar on commencement or continuation of any legal action or proceeding in respect of any debt and all actions and/ or steps, including but not limited to proceedings to impose any monetary penalty, would constitute a proceeding in respect of a debt. In view of the same, Noticee submitted that initiation of SEBI proceedings is prohibited in the eyes of law and SEBI proceedings already initiated must be kept in abeyance at least until moratorium is in effect under the provisions of IBC.
- (ii) In response to the SEBI drawing reference to the decision of Hon'ble NCLAT in the matter of Ashok Mahindru & Anr. v. Vivek Parti⁴ which *inter alia* clarified that interim moratorium under Section 96 would not extend to future liability or obligation, Noticee has submitted that it is distinguishable on facts and observations made thereunder do not apply to the facts of the present proceedings. Further, the Noticee has cited the following decisions in support of his contentions:
 - (a) Kirankumar Moolchand Jain v. TransUnion CIBIL Ltd. & Ors.⁵ (Hon'ble Madras High Court) – Noticee submitted that Hon'ble High Court has clarified that the scope of Section 96 does not extend to recovery of a debt but also covers proceedings in which the liability is being determined, whether or not such liability has been crystallised.
 - (b) P. Mohanraj and Ors. v. Shah Brothers Ispat Pvt. Ltd.⁶ (Hon'ble Supreme Court) – Noticee contended that the scope of the section extends to any legal proceeding even indirectly relatable to

⁴ NCLAT Order dated November 29, 2022 in the matter of Ashok Mahindru & Anr. v. Vivek Parti (Company Appeal (AT) (Insolvency) No. 1324 of 2022)

⁵ Kirankumar Moolchand Jain v. TransUnion CIBIL Ltd. & Ors. [Arb.O.P. (Com. Div) No. 86 of 2022) - Hon'ble Madras High Court

⁶ P. Mohanraj and Ors. v. Shah Brothers Ispat Pvt. Ltd. [(2021) 6 SCC 258] - Hon'ble Supreme Court of India

recovery of any debt is covered.

(c) *State Bank of India v. V. Ramakrishnan & Anr.*⁷ (Hon'ble Supreme Court) – Noticee contended that Hon'ble Supreme Court has interpreted that the scope of Section 96 and 101 of the IBC is far greater than that of Section 14 of the IBC.

(iii) According to the Noticee, the 'jurisdictional issue' has to be conclusively decided before proceeding with the matter on merits and requirement of the law is for SEBI to arrive at a conclusive finding on the preliminary issue first and conclude whether it has jurisdiction to proceed against Noticee No. 2 in view of the statutory bar under Section 96 of IBC.

Note: The decisions relied upon to support this contention and the summarised contentions made by the Noticee are as follows:

- a) *Arun Kumar & Ors. v. Union of India*⁸ (Hon'ble Supreme Court) - *The existence of a jurisdictional fact is a condition precedent for the exercise of power by a court of limited jurisdiction.*
- b) *Carona Ltd. v. Parvathy Swaminathan & Ors.*⁹ – *For assumption of jurisdiction by a Court or tribunal, existence of a jurisdictional fact is a condition precedent*
- c) *Sathyanath & Anr. v. Sarojamani*¹⁰ - *The jurisdiction issue is required to be decided in the first instance.*

(iv) The Noticee has argued that the definition of the term "debt" under IBC includes fines and penalties. This is clear from a perusal of the definition of "excluded debt" (Section 79(15) of IBC) and its usage in Section 94 of IBC (which applies only in case of insolvency proceedings initiated by a debtor). It is only in Section 94 of IBC that the legislature in its wisdom has made an exclusion of "excluded debt". There are no such exclusions applicable to Sections 95 and 96 of IBC. There is a deliberate omission by the legislature of

⁷ *State Bank of India v. V. Ramakrishnan & Anr.* [(2018) 17 SCC 394] - Hon'ble Supreme Court of India

⁸ (2007) 1 SCC 732

⁹ (2007) 8 SCC 559

¹⁰ (2022) INSC 529; Civil Appeal No. 3680/2022

the term 'excluded debt' from Sections 95 and 96 of IBC. Therefore, it is evident that the term "debt" includes fines and penalties and for this purpose, reliance is placed on the decision of Hon'ble Supreme Court in the matter of The Employees' State Insurance Corporation and Ors. v. The Tata Engineering and Locomotive Co. and Ors.¹¹ wherein Hon'ble Court discussed deliberate omission of a term in a definition by legislature.

- (v) In view of the definition of terms 'debt' and 'claim' under IBC, Noticee submitted that ambit of Section 95 of IBC and further Section 96 of IBC is very wide and so for something to be classified as a 'claim' it is not necessary that there has to be a crystallization or a reduction of a breach to a judgment or order. The legislature in its wisdom has not deliberately bifurcated it to state that the moratorium under section 95 of IBC applies to only such part of the proceedings which pertain to debt but it provides that the moratorium applies to the entire proceedings as long as it pertains to a debt.
- (vi) In the matter of Dilip B. Jiwrajka v. Union of India¹², the Hon'ble Supreme Court observed that the moratorium under section 96 and 101 of the IBC is wider than the moratorium under section 14 of the IBC. Noticee has further submitted that Hon'ble Securities Appellate Tribunal in the matter of Dewan Housing Finance Corporation Ltd. v. SEBI¹³ has held that SEBI cannot continue with its proceedings in view of the moratorium under Section 14 of IBC. Therefore, according to the Noticee, given that the moratorium under Section 96 is wider than that under Section 14 of IBC and that Hon'ble SAT has quashed the proceedings of SEBI on account of moratorium under Section 14 of IBC, the present proceedings cannot continue against Noticee No. 2.

48.3 I note that the first issue to be decided here is whether or not SEBI is required to pass a preliminary order regarding the 'jurisdictional fact' as contended by the Noticee of bar on proceedings due to the interim moratorium under Section 96 of

¹¹ (1975) 2 SCC 835

¹² (2024) 242 Comp Cas 358

¹³ Decision dated October 09, 2020 in Appeal No. 206/2020

the IBC. In this regard, I had formed a preliminary view on this issue and the same was shared with the Noticee vide e-mail dated January 15, 2024 for his response on the same and an opportunity of personal hearing was also granted to the Noticee. (*Note: I note that despite giving opportunities to make oral submissions on both preliminary objections as well as merits of the case, the Noticee chose to only argue the preliminary objections. He has however, in his written submissions, addressed both preliminary objections as well as merits of the case.*) With respect to the judicial precedents cited by the Noticees, I note the following –

- (i) In the matter of Carona Ltd. (*supra*) cited by the Noticee, Section 3 of the Maharashtra Rent Control Act, 1999 *inter alia* provided that the said Act would not apply to public limited companies having a paid up share capital of rupees one crore or more. Therefore, the Hon'ble Supreme Court held that paid up share capital of a company can be said to be a jurisdictional fact which would confer the jurisdiction on the court to consider the question whether the provisions of the Act were applicable. As there was a specific reference to the paid-up capital for excluding the jurisdiction of the Court, it was a question of law to first decide on the paid up capital of the company for the purpose of applicability of the Act.
- (ii) In the matter of Sathyanath (*supra*) cited by the Noticee, the Hon'ble Supreme Court was called upon to interpret Order XIV Rule 2 of Code of Civil Procedure, 1908 ('CPC') which dealt with the decision of Court on issues of law and fact. The present proceedings being quasi-judicial in nature are not bound by the provisions of CPC. Nonetheless, I note that the Hon'ble Supreme Court has made it clear that even in cases governed by the CPC, the Court has the discretion to either decide all issues together or only decide the preliminary issues as per the criteria provided under Order XIV Rule 2. The word used in the said amended Order XIV Rule 2 is 'may', thereby granting discretion to courts and courts are not obligated to decide only preliminary issues. The relevant extracts of the judgment of Hon'ble Supreme Court are reproduced below:

“5. Order XIV Rule 2 before amendment by the Act No. 104 of 1976 reads thus:

“R. 2. Where issues both of law and of fact arise in the same suit, and the Court is of opinion that the case or any part thereof may be disposed of on the issues of law only, it shall try those issues first, and for that purpose may, if it thinks fit, postpone the settlement of the issues of fact until after the issues of law have been determined.”

.....

7. The Order XIV Rule 2 after the substitution of Rule 2 by the Act No. 104 of 1976, effective from 1.4.1977, reads thus:

“2. Court to pronounce judgment on all issues.—(1) Notwithstanding that a case may be disposed of on a preliminary issue, the Court shall, subject to the provisions of sub-rule (2), pronounce judgment on all issues.

(2) Where issues both of law and of fact arise in the same suit, and the Court is of opinion that the case or any part thereof may be disposed of on an issue of law only, it may try that issue first if that issue relates to—

(a) the jurisdiction of the Court, or

(b) a bar to the suit created by any law for the time being in force,

and for that purpose may, if it thinks fit, postpone the settlement of the other issues until after that issue has been determined, and may deal with the suit in accordance with the decision on that issue.”

.....

9. The amended provision of Order XIV came up for consideration before the Full Bench of Allahabad High Court in a judgment reported as Sunni Central Waqf Board and Ors. v. Gopal Singh Vishrad and Ors. It was held that material changes had been brought about by substituting Order XIV Rule 2 of the Code. The word ‘shall’ in the unamended provision has been replaced by the word ‘may’ in the substituted provision, therefore, it is now discretionary for the Court to decide the issue of law as a preliminary issue, or to decide it along with the other issues.....The High Court held as under:

"22. Under the above provision once the court came to the conclusion that the case or any part thereof could be disposed

of on the issues of law only it was obliged to try those issues first and the other issues could be taken up only thereafter, if necessity survived. The court had no discretion in the matter. This flows from the use of the word "it shall try those issues first". Material change has been brought about in legal position by amended O. 14, R. 2 which reads as follows:—

XXX XXX XXX

24. The word "shall" used in old O. 14, R. 2 has been replaced in the present Rule by the word "may". Thus now it is discretionary for the Court to decide the issue of law as a preliminary issue or to decide it along with the other issues. It is no longer obligatory for the Court to decide an issue of law as a preliminary issue....."

.....

12. Patna High Court in a judgment reported as *Dhirendranath Chandra v. Apurba Krishna Chandra and Ors.*.... held as under:

"6. There is, however, nothing in sub-rule (2) which in my opinion makes it obligatory for the Court to try such an issue first in all cases. If, therefore, the Court is of opinion that in any particular case it will be more expedient to try all the issues together and therefore, if it refuses to try and decide any issue of law even on the points referred to in cls. (a) and (b) of sub-rule (2) as a preliminary issue before taking up other issues."

13. ...Bombay High Court in a judgment reported as *Usha Sales Ltd. v. Malcolm Gomes and Ors* held as under:

"11.....

12. The Court may try an issue relating to the jurisdiction of the Court or to the legal bar to the suit as a preliminary issue but this is more in the nature of a discretion rather than a duty and the Court is not bound to try any issue despite the provision contained in sub-r. (2) of R. 2 of O. 14 of the Code. The words "it may try" are clearly indicative of the fact that discretion is

given to the Court and no duty is cast upon the Court to decide any issue as a preliminary issue.”

.....

16. After the amendment, discretion has been given to the Court by the expression ‘may’ used in sub-rule (2) to try the issue relating to the jurisdiction of the Court i.e. territorial and pecuniary jurisdiction, or a bar to the suit created by any law for the time being in force.....”

(emphasis supplied).

48.4 In Para 23 of the Sathyanath order of Hon’ble Supreme Court, I note that Rule 2 of CPC was substituted to “*avoid piecemeal trial, protracted litigation and possibility of remand of the case, where the appellate court differs with the decision of the trial court on the preliminary issues upon which the trial court had decided*”. Therefore, in view of the said judgment, the submission of Noticee that preliminary issue has to be decided first before going on merits cannot be accepted.

48.5 The second issue to be decided is whether the interim moratorium under Section 96 of the IBC bars SEBI from continuing with the instant proceedings against Noticee No. 2 (Anil D. Ambani). In this regard, I note that interim moratorium under Section 96 of IBC commences from the date of application filed under Section 95 of IBC and ceases to have effect on the date of admission of the said application. It is pertinent to mention that Hon’ble NCLAT, New Delhi in the matter of *Ashok Mahindru & Anr. v. Vivek Parti*¹⁴ has *inter alia* clarified that interim moratorium under Section 96(1)(b) of IBC would not extend to future liability or obligation. The instant proceedings were pending at the time of filing of application by SBI and as per the status of the application filed by SBI as available on the website of Hon’ble NCLT, the application is still pending and interim moratorium is still in place. The relevant extracts of Hon’ble NCLAT’s Order are reproduced below:

¹⁴ Order dated November 29, 2022

“6. Section 96 of the I&B Code which deals with interim moratorium provides:

“96. Interim-moratorium. — (1) When an application is filed under section 94 or section 95—

(a) an interim-moratorium shall commence on the date of the application in relation to all the debts and shall cease to have effect on the date of admission of such application; and

(b) during the interim-moratorium period—

(i) any legal action or proceeding pending in respect of any debt shall be deemed to have been stayed; and

(ii) the creditors of the debtor shall not initiate any legal action or proceedings in respect of any debt.”

7. The expression used in Section 96(1)(b)(i) is “any legal action or proceeding pending in respect of any debt shall be deemed to have been stayed”.

8. The term ‘debt’ has been defined in the I&B Code in Section 3(11), which is to the following effect:

“3(11). “debt” means a liability or obligation in respect of a claim which is due from any person and includes a financial debt and operational debt;”

9. When we read Section 96(1)(b) with the definition of ‘debt’ in Section 3(11), what is contemplated to be stayed is the proceeding relating to debt, which means a liability or obligation in respect of a claim which is due from any person. Interim moratorium shall be for such proceedings which relate to a liability or obligation due i.e. due on date when interim moratorium has been declared. Section 96(1)(b) cannot be read to mean that any future liability or obligation is contemplated to be stayed.

(emphasis supplied).

48.6 With respect to the decision of Hon’ble Supreme Court in the matter of P. Mohanraj (*supra*) cited by the Noticee, I note that the decision in the said matter was in the context of moratorium under Section 14 of IBC which has no application to personal guarantors. Therefore, the said decision is not relevant in the instant proceedings.

48.7 I have perused the decision of Hon'ble Madras High Court in the matter of Kirankumar Moolchand Jain (*supra*) which has been cited by the Noticee. I am of the view that the said decision is not applicable to the instant proceedings and the observations of the Hon'ble High Court are limited to the specific facts and circumstances of the matter therein. In the said matter, petitioner had provided personal guarantee in respect of a loan provided to a borrower. The petitioner alleged that the bank and credit rating agency had published incorrect information about alleged default by petitioner in respect of the said loans and sought constitution of arbitral tribunal. However, respondents alleged that proceedings were instituted against the petitioner as personal guarantor before the Hon'ble NCLT and interim moratorium is triggered under Section 95 and 96 of IBC. Further, it was stated that petitioner had submitted a resolution plan before the Hon'ble NCLT. It was in such facts and circumstances that Hon'ble High Court observed that interim moratorium applies not only to proceedings for recovery of debt but also proceedings determining liability of guarantor in relation to the credit facility. This decision also does not delve into interim moratorium on future/ contingent debt or obligation or on initiation of proceedings not connected with respect to the specific debt.

48.8 With respect to the decision of Hon'ble Supreme Court in the matter of V. Ramakrishnan (*supra*) cited by the Noticee, I note that in the said matter, the issue to be decided was whether a moratorium under Section 14 of IBC extends to a personal guarantor. The Hon'ble Supreme Court held that such moratorium does not extend to personal guarantors. The Hon'ble Supreme Court compared the application of moratorium under Section 14 vis-à-vis Sections 96 & 101 and the observation with regard to wide ambit covered by Sections 96 & 101 was in the context of more persons being covered under Sections 96 & 101 vis-à-vis Section 14 of the IBC. The relevant extracts of the Hon'ble Court's decision are reproduced below:

"23. the protection of the moratorium under these Sections is far greater than that of Section 14 in that pending legal proceedings in respect of the debt

and not the debtor are stayed. The difference in language between Sections 14 and 101 is for a reason. Section 14 refers only to debts due by corporate debtors, who are limited liability companies, and it is clear that in the vast majority of cases, personal guarantees are given by Directors who are in management of the companies. The object of the Code is not to allow such guarantors to escape from an independent and coextensive liability to pay off the entire outstanding debt, which is why Section 14 is not applied to them. However, insofar as firms and individuals are concerned, guarantees are given in respect of individual debts by persons who have unlimited liability to pay them. And such guarantors may be complete strangers to the debtor – often it could be a personal friend. It is for this reason that the moratorium mentioned in Section 101 would cover such persons, as such moratorium is in relation to the debt and not the debtor....

(emphasis supplied)

48.9 In view of the above, I find that the aforesaid decision does not support the submission of Noticee that interim moratorium under Section 96 of the IBC is far wider than a moratorium under Section 14 of the IBC. Further, the said decision also does not delve into interim moratorium on future/ contingent debt or obligation or on initiation of proceedings not connected with respect to the specific debt.

48.10 Upon perusal of the judgment of Hon'ble Supreme Court in the matter of Dilip B Jiwrarka (*supra*), I note that Hon'ble Supreme Court has differentiated between the moratorium provided under Section 14 and interim moratorium under Section 96 of IBC. The Hon'ble Supreme Court has held that the moratorium under Section 14 is with respect to the debtor whereas interim moratorium under Section 96 is with respect to 'the debt'. The relevant extracts of decision of Hon'ble Court are reproduced below:

“

57. Section 96, as its marginal note indicates, deals with an “interim-moratorium”. In terms of Section 96, the interim moratorium takes effect on the date of the

application. In other words, the very submission of an application under Section 94 or Section 95 triggers the interim moratorium which then ceases to have effect on the date of the admission of the application (under Section 100). The consequences which flow from an interim moratorium are specified in clause (b) of sub-section (1) of Section 96. The impact of the interim-moratorium under Section 96 is that a legal action or proceeding pending in respect of any debt is deemed to have been stayed and the creditors or the debtors shall not initiate any legal action or proceedings in respect of any debt. **The crucial words which are used both in clause (b)(i) and clause (b)(ii) of sub-section (1) of Section 96 are “in respect of any debt”. These words indicate that the interim-moratorium which is intended to operate by the legislature is primarily in respect of a debt as opposed to a debtor. Clause (b) of sub-section (1) indicates that the purpose of the interim-moratorium is to restrain the initiation or the continuation of legal action or proceedings against the debt.** (Emphasis supplied.)

58. This must be contra-distinguished from the provisions for moratorium which are contained in Section 14 in relation to the CIRP under Part II. Section 14(1)(a) provides that on the insolvency commencement date, the institution of suits or continuation of pending suits or proceedings against the corporate debtor, including proceedings in execution shall stand prohibited by an order of the adjudicating authority. Clause (b) of sub-section (1) of Section 14 empowers the adjudicating authority to declare a moratorium restraining the transfer, encumbrance, alienation or disposal by the corporate debtor of any of its assets or any legal right or beneficial interest therein. Significantly, the moratorium under Section 14 operates on the order passed by an adjudicating authority. The purpose of the moratorium under Section 96 is protective. The object of the moratorium is to insulate the corporate debtor from the institution of legal actions or the continuation of legal actions or proceedings in respect of the debt.”

(emphasis supplied).

48.11 As submitted by Noticee, the proceedings were initiated by SBI against him in his capacity as a personal guarantor for loans taken by a company. I also note

that Noticee has not rebutted the findings of Hon'ble NCLAT in *Ashok Mahindru* matter. Therefore, in view of the decision of Hon'ble NCLAT in *Ashok Mahindru* and decision of Hon'ble Supreme Court in *Dilip B Jiwrajka*, it can be concluded that debt referred to in Section 96 of the IBC is the debt existing against the Noticee at the time of initiation of interim moratorium and cannot be considered to be applicable for any future liability. Any penalty imposed in the extant proceedings would be in the nature of a future liability as far as the interim moratorium under Section 96 of IBC is concerned. The submission and interpretation of the Noticee with respect to 'excluded debt' would not be tenable or relevant in view of the aforesaid decisions, since future liabilities are not covered under the ambit of IBC Section 96. Neither the legal precedents cited by the Noticee nor his written submissions have countered or rebutted the specific findings in the aforesaid orders of the Hon'ble Supreme Court and Hon'ble NCLAT. In any case, non-monetary directions under section 11B of the SEBI Act, are also outside of the ambit of Section 96 of IBC. Accordingly, the preliminary objection raised by the Noticee is devoid of any merit and cannot be accepted.

49. Whether the decision of Hon'ble Supreme Court in the matter of SBI & Ors. v. Rajesh Agarwal & Ors. bars the present proceedings?

49.1 Noticee No. 11 (Deep Industrial Finance Ltd.), vide his letter dated April 27, 2023, has made the following submissions:

- (i) The basis for issuance of SEBI's SCN was the forensic audit carried out by Bank of Baroda. The said forensic audit culminated into two forensic audit reports. The said audit reports were the basis of classification of Noticee No. 1's account as fraudulent in terms of Reserve Bank of India (Frauds Classification and Reporting by Commercial Banks and Select FIs) Directions, 2016 ('**RBI Directions**').

- (ii) The Hon'ble Supreme Court, vide its judgment dated March 27, 2023, in the matter of SBI & Ors. v. Rajesh Agarwal & Ors.¹⁵ held that the entire process of classification of 'fraud' under RBI Directions is in violation of the principles of natural justice and that before such classification of 'fraud', an opportunity has to be given to the concerned party to give comments on the forensic audit report.
- (iii) Accordingly, as the same process of RBI Directions was used for classification of RHFL's account also as fraud and SEBI's SCN proceeds on basis of allegations made in the said audit reports to be true, *"the very foundation of SCN stands obliterated"*.

49.2 I have perused the judgment of the Hon'ble Supreme Court and the submissions of the Noticee No. 11. In this regard, I note the following:

- (i) The appeal referred to by the Noticee was filed in Rajesh Agarwal matter (*supra*) challenging the RBI Directions primarily on the ground that banks/ financial institutions were not required to afford an opportunity of being heard to the borrowers before classifying their accounts as being 'fraudulent'.
- (ii) Upon perusal of the provisions of the said RBI Directions, the Hon'ble Supreme Court observed that *"classification of a borrower's account as fraud under the Master Directions on Frauds has difficult civil consequences for the borrower. Classification of the borrower's account as fraud under the Master Directions on Frauds virtually leads to a credit freeze for the borrower, who is debarred from raising finance from financial markets and capital markets."* In view of the aforesaid significant civil consequences of classification of an account as 'fraud', the Hon'ble Supreme Court has held that *"consistent with the principles of natural justice, the lender banks should provide an opportunity to a borrower by furnishing a copy of the audit reports and allow the borrower a reasonable*

¹⁵ CA No. 7300/2022

opportunity to submit a representation before classifying the account as fraud. A reasoned order has to be issued on the objections addressed by the borrower.” Accordingly, the decision of banks to classify the borrower account as fraud was held to be violative of the principles of natural justice and bank were granted liberty to take fresh steps in accordance with the decision of Hon’ble Supreme Court.

(iii) I note that the aforesaid decision pertains to procedure followed by banks in classifying the borrower’s account as fraud and therefore the decision could be relied upon by borrowers for making submissions before lender banks to oppose classification of their accounts as being ‘fraudulent’. The present proceedings of SEBI emanate from a detailed investigation of RHFL carried out by SEBI independent of the forensic audit reports. Further, there is no violation of principles of natural justice as the Noticees have been provided opportunity of personal hearing in the matter. Further, SEBI has not relied on the findings of forensic audit reports alone to arrive at its conclusions. Therefore, I do not find any merit in the submissions of the Noticee and the same are rejected.

50. Whether SEBI can continue its proceedings against Noticee Nos. 26 and 28 in view of the moratorium/ approved resolution plan under IBC?

50.1 Noticees 26 (Reliance Broadcast Network Limited) and 28 (Reliance Capital Limited) vide their replies had submitted that CIRP under IBC is pending and moratorium under Section 14 of IBC exists with respect to all legal proceedings against Noticees. Therefore, it was submitted by Noticees that instant proceedings cannot continue in view of the said moratorium.

50.2 I have perused the status of CIRP proceedings against Noticee Nos. 26 and 28 as available on the website of NCLT, and I note the following:

50.2.1 NCLT, Mumbai vide order dated May 06, 2024 approved the Resolution Plan submitted by Sapphire Media Limited with respect to Noticee No. 26.

50.2.2 NCLT, Mumbai vide order dated February 27, 2024 approved the Resolution Plan submitted by IndusInd International Holdings Limited with respect to Noticee No. 28.

50.3 Considering the above, I find that it would be appropriate for the interim order cum SCN qua Noticee Nos. 26 and 28 to be decided/ disposed of through separate orders by SEBI.

51. Whether SEBI is prevented from continuing with the present proceedings against RHFL as it is under the regulatory purview of NHB/ RBI?

51.1 It has been contended by some of the Noticees that RHFL is regulated by NHB/ RBI and SEBI does not have jurisdiction to question such lending transactions.

51.2 In this regard, I note that Noticee No. 1 is a company listed on stock exchanges under the provisions of securities law and therefore, within the regulatory ambit of SEBI. Therefore, SEBI has jurisdiction to continue with its proceedings against RHFL.

52. Whether SEBI can proceed against GPCL Borrowers/ Onward Borrowers since they are unlisted entities?

52.1 Some of the Noticees who are GPCL Borrowers as well as onward borrowers have contended that SEBI lacks jurisdiction to proceed against them as they are not listed and the loan transactions cannot be said to be dealing in securities to allege the charge of fraud.

52.2 I note that these Noticees have allegedly played a key role and acted in connivance with each other, which has resulted in misuse and diversion of funds of a listed entity for the benefit of promoters by acting as conduit for such fund transfers. The aforesaid misuse and diversion of funds has resulted in the misrepresentation of the financials of RHFL during the investigation period. This has allegedly operated as a scheme/ artifice to deceive and defraud the

investors/ shareholders of RHFL in the securities market. Therefore, the submissions of the Noticees cannot be accepted.

53. Whether there has been inordinate delay in the proceedings which has vitiated the proceedings?

53.1 I note that upon the resignation of PWC as statutory auditor in June 2019, SEBI *inter alia* advised PWC to furnish detailed reasons for its resignation, sought comments from the National Housing Bank (primary regulator of RHFL) and forensic audit reports were sought from Bank of Baroda. Taking into account the aforesaid documents and the preliminary examination of the information and documents available and disclosures made by RHFL, a detailed investigation was initiated in the matter. In this context, the Interim Order cum SCN records the following :

“It is noted that the aforesaid alleged violations by the Noticees pertain to the financial year 2018-19, however, the investigation into such layered loan transaction are always fraught with its own complexities and limitations and as the records before me suggest, many entities were not coming forward to furnish the requisite information for a long time on one pretext or the other and such non-cooperation had, in one way or the other have adversely impacted on the flow of investigation. Further, during the last two crucial years the country has been reeling under the pandemic of COVID-19 which had also put the investigation out of track for a long period, putting impediments in completion of investigation. Nevertheless, the regulator cannot be oblivious to such serious violations and delinquent conduct being perpetrated by the senior functionaries & KMPs including the group Chairman leading to such deplorable corporate governance in the affairs of the Company (Noticee no.1).”

53.2 Pursuant to completion of investigation, Interim Order cum SCN was issued to Noticees. Subsequently, in response to multiple requests, Noticees were provided opportunities of inspection throughout the year 2022 and multiple opportunities of hearings were granted to Noticees as detailed in Table-11

above. During the course of the hearings, certain clarifications were also sought from the Noticees and the same/ additional submissions were provided by them which are also listed in the aforesaid Table. In the case of Noticee No. 2, in response to the queries posed during the first two hearings, replies were submitted on three different dates. However, the said Noticee had not confirmed whether there were any further clarifications to provide. Accordingly, one final opportunity of hearing was provided on February 14, 2024 after which written submissions were received as well.

53.3 A total of 42 written replies from 28 entities were considered for the purposes of these proceedings. Last written submissions were received on February 26, 2024.

53.4 I note that SEBI has conducted its proceedings in compliance with principles of natural justice wherein opportunity of hearing was granted to all the Noticees and their submissions have been considered. The timeline between alleged violation and issuance of SCN is not more than 3 years. Noticees have not represented how the delay has prejudiced their ability to defend the allegations. Considering all of the above, I am of the view that the proceedings cannot be said to have been unjustifiably or unduly delayed or that the delay has vitiated the quasi-judicial proceedings.

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PART II – ISSUES ON MERITS

54. Whether the Noticees can be said to have engaged in a fraudulent scheme to divert funds of RHFL for the benefit of Reliance ADAG companies?

54.1 The SCN *inter alia* alleges the following:

- (i) RHFL, a company primarily engaged in business of home loans, had extended more than 50% of its total loan portfolio to various entities as General Purpose Corporate Loans (hereinafter referred to as “**GPCL**”). Reliance Capital Limited (hereinafter referred to as “**RCL**”) was the major promoter of RHFL, holding 47.91% of the RHFL’s shareholding during the relevant period.
- (ii) RHFL had deliberately ignored and omitted to follow the basic cannons of loan application evaluation exercise and documentation/ due diligence processes while disbursing GPC loans.
- (iii) The borrower entities had acted as conduits for siphoning off RHFL’s funds to promoter related entities.
- (iv) The scheme to divert bulk of the borrowed funds of RHFL to & for the benefit of promoter group companies were executed by concealing material facts from the stakeholders and not disclosing the true and correct picture to the investors
- (v) Noticee No. 2 emerges out to be the natural person behind many such ultimate recipient companies connected to RHFL who have been benefitted from such fund transfers. Noticee Nos. 3-5 who were the key managerial personnel of the company executed the fraudulent scheme and Noticee Nos. 6-28 have either acted as conduits to transfer the funds received as GPC loans from RHFL to onward borrowers belonging to the promoter group or have been unjustly benefitted from the end use of those loan transactions undertaken by RHFL through such conduits.

54.2 I note that the allegations in the SCN are based on conclusions made in SEBI’s Investigation Report. Further, the findings of the following reports are also mentioned therein –

- the Report under section 143(12) of the Companies Act, 2013 filed by PWC (*RHFL's statutory auditors during Financial Years 2017-18 and 2018-19*); and,
- the Forensic Audit Report by Grant Thornton (*appointed by Bank of Baroda, lead bank of the consortium of lenders of RHFL*).

The commonalities of the adverse conclusions arrived at in the three separate and independent reports are indicated in the table below:

Table - 12

Issue	SEBI Investigation Report	PWC Report	Grant Thornton Reports
Loans given to entities with weak financials	✓	✓	✓
Deviations recorded by RHFL in CAMs	✓		✓
No proper documentation of loans	✓	✓	✓
No due diligence	✓	✓	✓
GPCL borrowers are connected to Reliance ADA Group entities viz. common addresses, common directors, etc.	✓	✓	✓
Diversion of loans to promoter group entities	✓	✓	✓
Ever Greening of GPC Loans	✓		✓
Loans onward lent on same date	✓	✓	✓
Loans disbursed on same date as date of application	✓	✓	

Loan disbursed prior to sanction	✓	✓	✓
GPC Loans converted into unquoted investments	✓		
Guarantee given by promoter group entities for GPC lendings	✓		✓
Misrepresentation of financials	✓		
Approval of Loans by Anil D. Ambani	✓	✓	✓

54.3 The allegations of violation of securities laws made in the SCN rest on three important conclusions:

- (A) That there was patent irregularity in disbursement of loans by RHFL;
- (B) That the loans were granted to entities which are closely connected to/ controlled by the ADAG group of companies/ Anil Ambani and the loans availed of by the GPCL borrowers were promptly transferred to entities closely connected to/ controlled by the ADAG group of companies/ Anil Ambani; and,
- (C) GPC Loans were eventually written-off/ classified as NPA after their disbursal.

54.4 **Irregular Loan Disbursement**

The allegation regarding irregularity in loan disbursement in turn stems from the following:

- Proportion and size of GPCL loans disbursed by RHFL
- Weak financials of the borrowing entities
- Role of KMP- Fundamental deviations ignored
- Loan approvals by unauthorized officials contrary to instructions from RHFL Board
- Hasty Approvals to GPCL Borrowers' Applications

54.4.1 **Proportion and size of GPC loans disbursed by RHFL:**

(i) As per Section 2(d) of the National Housing Bank Act, 1987, a housing finance company *"includes every institution, whether incorporated or not, which primarily transacts or has as one of its principle objects, the transacting of the business of providing finance for housing, whether directly or indirectly."* Upon perusal of the same, I understand that a housing finance company has to primarily transact in housing finance business and that therefore a majority of loans extended by it must be in the nature of housing finance/ housing loans. This is further supported by the following observations by RHFL's Board and NHB's letter to RHFL provided below:

- (a) The Minutes of RHFL Board Meeting held on February 11, 2019 *inter alia* stated that *'Management to present a plan before the Board at their meeting scheduled to be held on February 14, 2019, regarding their strategy to fulfil the NHB requirements of continuing the license as a Housing Finance Company and to hold the home loan portfolio more than 50% by March 31, 2019'.* (emphasis supplied)
- (b) As per the Grant Thornton Report dated January 02, 2020, RHFL submitted their response on forensic auditor's observations that more than 80% of its total disbursements being GPC Loans during FY 2018-19. In its response to the query raised by Forensic Auditor and *inter alia* stated that *NHB vide its letter dated August 7, 2019 advised the Company to bring down its non-housing loan portfolio to below 50% of the total loans (housing plus non- housing). The Company vide its letter dated August 16, 2019 has sought time from the Regulator to be able to be in compliance with the same.* (emphasis supplied)

(ii) In view of the above, it is reasonable to infer that RHFL was required to maintain its non-housing portfolio to less than 50%. Yet, RHFL clearly had

a much higher proportion of non-housing loans disbursed to its clients. This is discussed in greater detail in subsequent paragraphs.

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

Table – 13

(INR in Crore)

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

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

The details captured in the Table above indicate that the loans extended by RHFL to the Corporates had significantly increased from an amount of INR 3742.60 Crore in 2017-18 to INR 8670.80 Crore in the year 2018-19.

- (iv) RHFL, in addition to various other products, offered General Purpose Corporate Loans (GPCL) also referred to as 'Demand/ Call Loan'. As approved by the Board of Directors of RHFL (vide Policy on Demand/ Call Loan Ref. No. RHF/CRT/MOP/112018/20.0, effective from November 01, 2018) such Demand/ Call Loans carried certain broad features which postulated that:
- (a) RHFL can extend such loans to its customers who do not have a fixed and structured income stream but have short term, temporary requirements for funds on a frequent basis.
 - (b) Demand/Call loans would be considered by the *Company* both under Secured loan as well as unsecured loan and the maximum period

for a Demand/Call loans would normally be 12 months from the date of sanction of such loan.

(c) All such loans having stipulated a period beyond 6 months shall be subjected to review of performance not exceeding 6 months '*either on discrete or on a summary basis*'. Such Demand/ Call loans shall not be renewed unless the periodical review has shown satisfactory performance/compliance with the terms of sanctions.

(d) GPCLs processed under the Branch Code of 'Corporate Branch' shall have a portfolio cap of INR 6750 Crore. Any deviation or any transaction beyond this threshold limit shall require confirmation by its Holding Company viz., Reliance Capital.

(v) As per the information submitted by RHFL to SEBI, it had extended an amount of INR 8470.65 Crore as GPC loans to 45 unique entities during the investigation period (FY 2018-19). The top 14 GPCL Borrower accounted for around 51.75% of the total GPC loans advanced by RHFL during the Financial Year 2018-19, to whom an amount of INR 4,383.62 crore was lent out of the total GPC lending of INR 8470.65 Crore.

(vi) SEBI issued summons to the said 14 GPCL Borrower entities asking them to provide certain information with respect to the loans extended to them by RHFL. One GPCL Borrower did not respond. The responses of the remaining 13 GPCL Borrower entities reflected that an amount of INR 824.60 Crore extended to them as GPCL has not been accounted for by RHFL in its submissions made to SEBI. The said revelation enhanced the total GPCL to INR 9295.25 Crore (INR 8470.65 Crore as mentioned in (e) above + INR 824.60 Crore). The details of such unaccounted disbursements are detailed in the table below:

Table - 14

Sr. No.	Borrower Entity Name	Date	Loan Amount (INR Cr.)
1	Medybiz Private Limited	10-Oct-18	40.00
2	Adhar Project Management and Consultancy Private Limited	08-Aug-18	50.00
		09-Aug-18	43.48
		10-Aug-18	51.12
		06-Sep-18	45.00
		04-Oct-18	25.00
		27-Apr-18	100.00
3	Mohanbir Hi-Tech Build Private Limited	19-Sep-18	70.00
4	Indian Agri Services Private Limited	18-Apr-18	200.00
		12-Jul-18	100.00
5	Gamesa Investment Management Private Limited	06-Nov-18	100.00
	Total		824.60

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

(viii) The said amount of INR 9295.25 Crore was extended to 45 GPCL Borrower entities, in which the share of top 14 GPCL Borrower entities aggregated to INR 5208.23 Crore¹⁶ (INR 4383.62 Crore+ INR 824.60 Crore, as referred in Table -). However, as stated earlier in this order, one entity out of the said top 14 entities viz. Vinayak Ventures Private Limited (Noticee No. 13) did not respond to the summons issued by SEBI, therefore, the factual findings and the analysis of the alleged fraudulent

¹⁶ This includes an entry of INR 40 Crore (Approx.) as GPC Loan extended to Indian Agri (Noticee no. 6) by RHFL. In its submissions Indian Agri has stated the said amount was received in FY 2019-20, however, as per RHFL, the said loan was disbursed to them in the FY 2018-19. Accordingly, the total GPC Loans extended to the top 14 entities has been considered as INR 5,165.47 Crore.

lending activities of RHFL are primarily based on the responses received by the top 13 GPCL Borrower entities, who have been advanced the following GPC Loans during FY 2018-19:

Table - 15

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

(ix) I note that the quantum of GPC Loans disbursed by RHFL were much more than the loans disbursed by RHFL for its primary activity i.e. housing loans. Further, such GPC Loans were disbursed to 45 borrowers and more than 50% were disbursed to the top 14 borrowers.

54.4.2 Weak financials of the borrowing entities:

(i) The financial position of the 13 GPCL borrowers is provided in the Table below:

Table – 16 - Financial Position of the 13 GPCL Borrowers entities

All amounts in INR Cr.

Name of the Borrower	Revenues			Profit			Operating Cash flows			Total Assets			Tangible Assets			Net Worth			Loan disbursed by RHFL in FY 2018-19	Loan repaid in FY 2018-19
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18		
Gamesa Investment Management Pvt. Ltd.	-	-	0.04	(0.01)	0.00	(4.17)	0.00	0.00	0.00	0.00	0.00	128.70	51.63	51.63	51.63	0.00	0.00	(4.18)	664.00	496.00
Indian Agri Services Pvt. Ltd.	2.43	-	0.42	(1.22)	(1.41)	0.00	0.19	(0.15)	-	11.02	12.61	47.41	-	-	-	(2.48)	(3.89)	24.75	733.00	607.00
Phi Management Solutions Pvt. Ltd.	19.85	0.01	0.42	2.30	0.00	0.00	0.18	(2.23)		47.37	47.37	47.41	-	-	-	28.77	28.77	24.75	430.00	222.00
Azalia Distribution Pvt. Ltd.	0.19	0.32	0.13	-0.19	(0.33)	(0.09)	(0.09)	0.13	(0.03)	0.63	0.44	0.32	-	-	-	0.22	(0.10)	(0.19)	386.50	211.00
Mohanbir Hi-Tech Build Pvt. Ltd.	-	-	5.19	0.00	-0.00	(1.15)	(22.06)	0.00	(80.67)	0.01	0.00	208.11	22.06	22.06	21.86	0.00	0.00	(1.15)	375.00	203.50
Hirma Power Ltd.	0.04	0.04	41.25	(0.02)	0.01	0.22	(0.01)	(0.05)	(349.95)	0.25	0.29	370.22	-	-	-	(0.40)	(0.38)	(0.16)	225.00	15.00
Arion Movie Productions Pvt. Ltd.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	402.39	214.89
Citi Securities And Financial Services Pvt. Ltd.	0.15	0.03	0.03	(0.19)	0.00	(0.01)				0.33	0.38	0.32	0.33	0.38	0.32	0.33	0.39	0.32	220.80	0.00
Adhar Project Management And Consultancy Pvt. Ltd.	0.00	0.01	0.42	(2.14)	(9.65)	(8.60)	0.18	2.50	0.77	27.01	21.53	52.79	-	-	-	(2.49)	(12.14)	(20.76)	534.60	589.41
Deep Industrial Finance Ltd.	0.00	0.10	11.46	(0.22)	(0.45)	(0.17)				44.02	44.01	313.75	44.02	44.01	313.75	15.87	15.42	15.19	220.00	0.00

Tulip Advisors Pvt. Ltd.	0.00	0.02	0.06	0.00	0.00	0.00	-	-	-	0.22	0.23	0.22	-	-	-	0.22	0.22	0.22	215.00	13.00
Netizen Engineering Pvt. Ltd.	1497.39	1548.16	74.66	(1,321.28)	(287.36)	0.40	(1,519.28)	(1,363.01)	(1,395.46)	7756.18	7703.69	8072.65	-	-	-	(5364.82)	(5652.19)	(5651.79)	212.00	0.00
Medybiz Pvt. Ltd.	0.00	-	0.16	(0.83)	0.00	0.00	(0.02)	(0.01)	0.00	0.02	0.01	0.02	-	-	-	(1.70)	(6.65)	(6.65)	335.90	163.50

(Source: Replies of GPCL borrower entities)

(ii) The above Table clearly reveals that for each of these 13 companies, their profits, operating cashflows, revenues, assets, and net worth were all negative or very negligible in comparison to the quantum of loans advanced. These are preliminary and basic financial metrics of a company that any rational lender would first peruse to determine a borrower's ability to repay a loan. It is amply clear, even at first glance and even to a lay person, that none of these 13 companies standalone pass muster as a credible borrower for any loan running into hundreds of crores of Rupees. Some specific instances from the above table are highlighted below:

(a) With respect to Hirma Power Ltd. (Noticee No. 16), it had negative cash flows to the tune of INR 349.95 Crore during FY 2017-18 and negative net worth of INR 16 lakh during the same period. Despite such weak financials, Hirma was disbursed GPC Loan of INR 225 Crore during FY 2018-19.

(b) With respect to Citi Securities and Financial Services Pvt. Ltd. (Noticee No. 10), during FY 2017-18, it had revenue of just INR 3 lakh, loss of INR 1 lakh, no operating cash flows and a net worth of INR 32 lakh. Despite such weak basic financials, Citi was disbursed GPC Loan of INR 220.80 Crore during FY 2018-19.

(c) With respect to Tulip Advisors Pvt. Ltd. (Noticee No. 17), during FY 2017-18, it had revenue of INR 6 lakh, no profit, no operating cash flows and a net worth of INR 22 lakh. Despite such weak basic financials, Citi was disbursed GPC Loan of INR 215 Crore during FY 2018-19.

- (iii) As shall be shown below, RHFL's internal Credit Approval Memos (CAMs), through which approval was sought and provided for disbursement of these loans, do not record any mitigating circumstances or facts that might make up for these 13 companies having such weak core financials. Instead, the CAMs merely record the dismal financials of these non-descript would-be borrowers, and further blandly seek approval to deviate from a series of basic due diligence in loan processing. In effect, through these CAMs, RHFL chose to close its eyes and disburse several hundred crore Rupees worth of loans to these patently financially unworthy entities, with practically no security or collateral or any other alternate assurance of any kind.
- (iv) Dhiraj & Dheeraj was appointed as statutory auditor of RHFL after the resignation of PWC. I note that with reference to GPC Loans, they have given a qualified opinion as provided below:
- "We draw attention to note 7 of the Statement with regards to the loan advanced under the 'General Purpose Corporate Loan' product with significant deviation to certain bodies corporate including group companies and outstanding as at March 31, 2018 aggregating to Rs. 7489.89 Crs. majority of Company's borrowers have undertaken onward lending transaction and end use of the borrowings from the Company included borrowings by or for repayment of financial obligation to some of the group companies. We are not getting sufficient audit evidence to ascertain recoverability of principal and interest including time frame of recovery of overdues." (emphasis added)*
- (v) I also note that as per Minutes of Board Meeting held on March 28, 2019, the then statutory auditors PWC, in pursuance of directions issued on Board Meeting held on February 11, 2019, had presented that *"loans granted under the corporate loan product were seen to be sanctioned without adequate security and without justification based on the net worth and business of the borrowers."*

(vi) As such, I note that even statutory auditor appointed after PWC resigned in June 2019 i.e. Dhiraj & Dheeraj, had observed that GPC Loans were disbursed without adequate security, and that there was not enough evidence that such loan amount could be recovered.

54.4.3 Fundamental deviations ignored:

(i) As mentioned above, an analysis of Loan Application Documents pertaining to the GPC loans (total 70 Loan Application Documents for the loans amounting to INR 6187.78 Crore for GPCL disbursed in FY 2018-19) as furnished by RHFL to SEBI vide its letter dated December 23, 2021, *inter alia* revealed not only were the financial of the would-be borrowers dismal, in addition, there were many deviations from basic due process recorded in the Credit Approval Memos (CAMs). The nature of some of the deviations so recorded in the CAMs are:

- Field Investigation waived
- Probability of Default waived
- Eligibility criteria not as per the norms
- No creation of security
- No customer rating undertaken
- Escrow account not opened

(ii) In his statement recorded with SEBI, Noticee No. 4 has stated that loan approval processes were waived for certain borrowing entities due to the fact that those borrower entities were part of ADA Group itself. He does not specify which of these GPC loans were known to be part of the ADA Group at the time of disbursal. The CAMs themselves, for the 13 companies mentioned above, do not record the borrowers as being ADA Group companies. Noticee No. 4's statement is problematic at multiple levels. If RHFL management was aware that they were lending to ADA Group companies, they should have undertaken extensive due diligence, recording, and disclosure that should accompany any sizeable lending to

related parties. There is no evidence of any of that being done, certainly not in the aforementioned CAMs and at the time of GPCL lending. In addition, merely because the borrower is or may be a group company, does not give RHFL management the license to dispense with the due diligence and process that should accompany loan processing. In all, a plain reading of the circumstances strongly suggests that the Noticee no. 4, in complete disregard of his role as a CEO of a listed company with public shareholders, was deliberately bypassing basic requirements and due diligence procedures while processing a series of GPCL applications involving hundreds of crores of Rupees.

(iii) As per the applications for loans and CAMs, the GPCL borrowers had taken loans for the purpose of meeting their working capital requirements. However, during the investigation, it was observed that the 13 borrower entities had availed a loan of INR 4944.34 Crore and had onward lent around 92% of the said funds soon after receipt of the same. As per the Memorandum of Association or financial statements of these 13 GPCL borrower entities, it is observed that none of them were involved in any business activity of financing or financial services which may justify such onward lending as 'working capital requirement'. Despite recording deviations and weak financials, RHFL did not take any step at the time of processing the loan application to determine whether such GPCL borrowers had any 'working capital requirements' or corporate purposes for availing loans of such magnitude.

(iv) To illustrate, the loan application document of Gamesa Investment Management Private Limited (Noticee No. 14) reveal the following.

(a) Gamesa submitted an application dated September 19, 2018 for GPC Loan of INR 200 Crore (Application No. RHML:468480).

(b) In the CAM, it is recorded that the 99% shareholding of Gamesa is held by Aadhar Project Management & Consultancy Private Limited (Noticee No. 6) and it is availing loan to meet its working capital requirement.

(c) The security for the said loan amount of INR 200 Crore is a charge created on current assets and the current assets of Gamesa on March 31, 2017 were INR 26,000 (Rupees Twenty Six Thousand).

(d) Further, as on March 31, 2017, Gamesa had zero revenue and had expenses of INR 20,000. Therefore, Gamesa was in loss of INR 20,000 (Rupees Twenty Thousand Only).

(e) The deviations recorded in the aforesaid CAM are

- Field Investigation Waived
- Probability of default waived
- Individual holding shares in applicant and holding company not on loan structure
- Eligibility not as per norms
- Disbursement to be done without creation of security
- Principal payment is bullet payment instead of monthly payment
- Maximum loan amount and Product CAP not as per norms
- ROI, PF and Foreclosure charges not as per norms
- Customer rating not done
- Escrow account not to be opened.
- Monthly booking MIS not to be taken
- Cash flow statement not to be taken as principal to be repaid as bullet
- 51% Shareholding of the company not on deal structure
- Security PDCs not to be obtained

(v) Noticees have submitted that granting of such loans was a business decision with best interests of the Company in mind and that they were not aware that there will be default in repayment. However, as detailed above, loan for an amount of INR 200 Crore has been sanctioned to Gamesa which had zero revenue and negligible assets. Such financial credentials as recorded in the CAM make it apparent that the ability of the

borrower to repay the loan is completely suspect. There was nothing in the CAM to show that there were mitigating assets, collateral, assurance or context that might allow RHFL to overlook the patently weak financials of this company. Notwithstanding such glaring red flags, incredibly, the requirement for basic due diligences that accompany loan processing were waived, and multiple serious deviations were recorded in the CAM put up to Credit Committee. However, Noticee Nos. 3 and 4 (i.e. CFO/ Director and CEO/ Director of RHFL respectively) blindly approved the said CAM and loan, without recording why they saw it fit to lend hundreds of crores of Rupees to a borrower with clearly unsuitable and immaterial financials, and with waiver of a series of basic due diligence to boot. Further, it is observed that the application for the loan was processed on the same day i.e. September 19, 2018.

(vi) The relevant extracts from the said application and CAM pertaining to the same are provided below for reference:

Image- 1

KHWC00K000073259

(939113)
Gianera 200 crd

RELIANCE HOME FINANCE

A RELIANCE CAPITAL COMPANY

19/09/2018 (50) (53) (55)

Application no.	RHML: 468480
Sales Manager Name	Bahul Kohli
Sales Manager Code	70017681
DSA Name	Direct
DSA Code	
DSE Name	
DSE Code	
Customer Category Code	
Scheme Code	RHE GPCL
Applied loan Amount	200 Cr.
Applied Tenure in months	12 month
Investment Status	
New Income Group (GRI)	☐ No ☒ Yes
PRM-CSS	☐ BRNUG ☐ RMD1 ☐ IMC38

PERSONAL DETAILS - INDIVIDUAL APPLICANT

RELIANCE MORTGAGE LOANS

APPLICATION FORM

(✓ boxes where appropriate and with N/A if not applicable. All fields are mandatory. Use CAPITAL LETTERS)

Post & Sign
in front of agent
throughout

Applicant

Post & Sign
in front of agent

Authorized Signatory
Co-applicant/Guarantor

Image- 2

959113

(54)

RELIANCE HOME FINANCE

Date: 19.09.2018

Gamesa Investment Management Private Limited
Trade World, 'B' Wing, 7th Floor, S. B. Marg, Lower Parel, Mumbai Mumbai City MH 400013

Dear Sirs,

Sub: Your application for GPCL loan of Rs. 200,00,00,000/- (Rupees Two Hundred Crores Only)

Based on your application for the aforesaid loan and information provided to us, we are agreeable to sanction the loan amount applied by you on the terms & conditions mentioned below.

Particulars	Details
Facility type	GPCL
Facility tenor	12 months
Loan Amount	Rs. 200 Crores
Security	Charge on current assets
Pricing	12.60% per annum
Processing Fees	0%
Repayment Terms	Bullet payment of principal & interest at the end of tenor
Overdue Charges	RHFL will charge overdue charges for any delayed payment at the rate of 18% .p.a. compounded monthly as will be detailed in the transaction documents.
Purpose of loan	To meet the working capital requirement of the Group
Payment Mechanism	NA
Foreclosure / Prepayment Charges	NIL

Image- 3

Deal Structure:
This facility is availed by Gamesa Investment Management Private Limited to meet the working capital requirement.

Security:
Charge on current assets.

Financials:

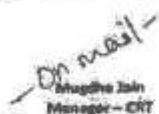
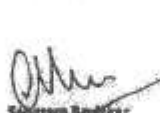
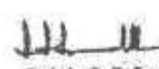
	31-Mar-17	31-Mar-16
(Rs. in Lakhs)		
Summary of Balance Sheet as on		
Liabilities		
Share capital	1.00	1.00
Reserve and surplus	(1.99)	(1.79)
Current liabilities	5165.14	5166.14
Total	5164.20	5164.41
Assets		
Non current assets	5163.93	5163.99
Current assets	0.28	0.47

Gamesa Investment Management Private Limited Page 1

Image- 4

		RELIANCE HOME FINANCE
Total	5164.20	5164.41
Summary of Profit & Loss Account for the year ended		
	31-Mar-17	31-Mar-16
Revenue from operations	-	-
Other revenue	-	-
Less: Expenses	0.20	1.12
Profit before Tax	(0.20)	(1.12)
Less: Tax	-	-
Profit / (Loss) after tax	(0.20)	(1.12)
Deviations:-		
- FI waived - PD waived - Individual holding shares in applicant and holding company not on loan structure - Eligibility not as per norms - Disbursement to be done without creation of security - Principal payment is bullet payment instead of monthly payment - Maximum loan amount and Product CAP not as per norms - NOL, PF and Foreclosure charges not as per norms - Customer rating not done - Escrow account not to be opened - Monthly booking MIS not to be taken - Cash flow statement not to be taken as principal to be repaid as bullet 51% Shareholding of the company not on deal structure - Security FOCs not to be obtained		

Image- 5

RELIANCE HOME FINANCE	
Proposed By	
 Anupama Jain Manager - CRT	 Kuntika Sumra Chief Manager - CRT
Recommended By	
 Rajiv Kumar NCM - CF	 Sangram Suthakar CM
 Rajendra Gopalakrishnan CFO	
Approved By	
 Ravindra Sudhakar ED & CFO	 Amit Bapna Group CFO

(vii) RHFL has contended that loans were given on the strength of the promoters/ projects/ collaterals, etc. and requisite charge has been created over the said collaterals. However, as I have noted in the instance and illustration of Gamesa, the collateral for a loan of INR 200 Crore was

made against current assets of a mere INR 20,000. The situation is similar for each of the 13 GPCL borrowers detailed above. As has been noted earlier, RHFL clearly chose to lend hundreds of crores of Rupees to non-descript GPCL borrowers with patently unsuitable financials, with no semblance or record of any cashflows or collateral or any other factor to justify any confidence of repayment, and to boot, has done so while waiving the requirement for the most basic of due diligence in the loan processing. Therefore, this contention of RHFL is patently false.

(viii) The deviation from rating the borrowing customer, and for computation of probability of default of the loan facility, is of particular significance. With such weak financials, and with no record of any mitigating security, collateral, assurance, or other circumstances of any consequence in the CAM, the rating of the borrower would have been very poor and consequently, the probability of default of the loan would have to be acknowledged as very high. Suppressing these crucial elements allowed RHFL to refrain from accounting for and disclosing the significant expected credit losses that one might expect from such poor lending.

(ix) Put together, it requires an incredible stretch of imagination to justify the above mentioned GPC loans as bona fide lending decisions.

(x) Noticee 4 – Ravindra Sudalkar submitted that Company charged a higher interest rate while granting GPC Loans and such loans were legitimate within the regulatory framework of NHB. The argument is specious. Well before any lender decides on a rate of interest for a loan, they would first ascertain the ability and the willingness of borrower to repay the loan. No amount of high interest can make up for a clear inability or unwillingness of the borrower to repay a loan. As has been noted earlier, the terribly weak financials of the borrowers as enumerated in the CAMs meant that the GPCL borrowers did not even pass the first hurdle of demonstrating

an ability to repay a loan running into hundreds of crores of Rupees. By the farcical argument made by Noticee No. 4, anyone with negligible assets or business should be able to take loans running into several hundreds of crores of Rupees from financial institutions, merely by promising to pay higher interest rates.

(xi) I further note that it is not the case of SEBI that GPC Loans were illegal. Instead, the allegation is that such loans were granted without following the due process and despite RHFL being fully aware of the extremely weak financials of the borrowers, which further suggest that there is more to it than meets the eye, as will be enumerated below.

54.4.4 *Loan approvals by unauthorized officials contrary to instructions from RHFL Board and Role of KMPs:*

- (i) In terms of the Board Resolution passed by the Board of Directors of RHFL in the meeting held on April 24, 2017, Credit Authority Delegations (CADs) were approved, according to which loans up to INR 5 Crore were to be approved by the Specific Credit Hierarchy (at the level of the National Credit Manager). Further, in respect of loans greater than INR 5 Crore, the approving authority was the Credit Committee comprising of Chief Risk Officer (CRO), Chief Executive Officer (CEO) and One Director. It has been informed that during the Financial Year 2018-19, the members of the said Credit Committee were:
 - (a) *(Upto November 20, 2018)* - Mr. Ravindra Sudhalkar (CEO), Mr. Amit Bapna (Director), Mr. Krishnan Gopalkrishnan (CRO)
 - (b) *(After November 20, 2018)* - Mr. Ravindra Sudhalkar (CEO), Mr. Amit Bapna (Director), and Mr. Raj Kumar M (Head - Real Estate Credit & Credit Risk
- (ii) In their meeting on February 11, 2019, the Board of Directors of RHFL *inter alia* decided that: *"No further lending to the corporates that does not*

fall under the policy criteria of the Company and loans shall be given only for retail home loan portfolio activities for long terms purposes and to the builders for residential housing constructions and for all purposes as permitted by NHB for individual/ retail residential lending.” (emphasis supplied). However, even after such an explicit decision/ direction of the Board of Directors that excluded any further GPCL lending (a decision which was taken by the RHFL Board with attendance of Mr. Amit Bapna (Noticee No. 3), Mr. Ravindra Sudhalkar (Noticee No. 4) and Mr. Pinkesh Shah (Noticee No. 5)), an amount of INR 2276.52 crore was further disbursed by RHFL towards 24 different GPC Loan applications not pertaining to home loans or having construction related lending, until March 31, 2019.

- (iii) Upon perusal of the information/ loan documents submitted by RHFL, I note that certain loans (14 cases) amounting to INR 1472.16 Crore were found to have been approved after February 11, 2019 by the Noticee no. 2 in the capacity of Chairman of Reliance ADA Group, and similar deviations in the sanctioning terms as highlighted above have been observed in all the CAMs of all these loans. The loan application documents pertaining to GPC Loans as submitted by RHFL vide its letter dated December 23, 2021 provide the following breakup of loan approvers:

Table – 17: Loan Approvers and deviations recorded in CAM of GPC loans

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

- (iv) Curiously, while the earlier GPC Loans were approved by Noticee No. 3 (Amit Bapna, Group CFO/ Director) and Noticee No. 4 (Ravindra Sudhalkar, Executive Director and CEO) despite several deviations recorded in the CAMs, every GPC Loan approved subsequent to the aforesaid direction of the RHFL Board were done so only by Noticee No. 2 (Anil D. Ambani), who, as per material available on record, had never approved GPC Loans prior to the aforesaid Board decision.
- (v) Noticee No. 2 has submitted that the operative decision of the said Board Meeting dated February 11, 2019 was the establishment of 'Review Committee of Directors' and not the directions to RHFL Management which merely formed part of the discussion amongst the directors of RHFL.
- (vi) I have perused the Minutes of RHFL Board Meeting held on February 11, 2019. I note that under Item No. 20 (Review the risk management and audit updates of the Company) of the Minutes and sub-head of Credit Risk, the Board was informed that all large exposures to 42 entities were GPC Loans for a loan amount of INR 7,017.80 Crore and the principal outstanding as on December 31, 2018 was INR 6,157.55 Crore. RHFL Management had informed the Board that the said loans were standard and considered to be recoverable and no additional provision was required to be made for the nine months ended December 31, 2018. Further, it is also mentioned in the Minutes that the Housing Loan Portfolio of RHFL had dropped from 53% to 45% as compared to quarter ended September 30, 2018.
- (vii) It was in view of the aforesaid submissions that RHFL Board expressed '*deep concern and further expressed their concerns on the composition of lending portfolio of the Company.*' In light of such concern, RHFL Board directed the Management of RHFL (as per the Minutes of Meeting, CEO (Noticee No. 4), CFO (Noticee No. 5) and Company Secretary &

Compliance Officer (Parul Jain) had attended the said Board Meeting) to not lend any further to corporates and that “...loans shall be given only for retail home loan portfolio activities for long terms purposes and to the builders for residential housing constructions ...”. In addition to the said direction, RHFL Board also directed the Management of RHFL to present a plan before the Board on their strategy to fulfil the NHB requirements of continuing license as a Housing Finance Company and to hold home loan portfolio more than 50% by March 31, 2019. Further, in the said Board Meeting, RHFL Board had also directed statutory auditors as well as internal auditors to check the documentation of all the loans, *inter alia*, whether due diligence was exercised in sanctioning such loans and verify the adequacy of security. In addition to these directions, the Review Committee of Directors, comprising Ms. Deena Mehta, Lt. Gen. Syed Ata Hasnain (Retd.) and Mr. Amit Bapna- Noticee No.3) was formed to review the GPCL exposures.

(viii) I note therefore that there was an express direction from the RHFL Board to the RHFL Management, at the February 11, 2019 meeting, not to extend any more GPC Loans. The formation of Review Committee was in addition to this direction, and did not in any way override or obviate the said direction. Note that Noticee Nos. 3-5, who were KMPs in RHFL and attended the Board Meeting held on February 11, 2019, have clearly acknowledged that RHFL Board had directed that no further GPC lending should be done. Therefore, Noticee No. 2's casual dismissal of RHFL Board's unequivocal decision to not extend any more GPC Loans is disturbing.

(ix) With respect to loan approvals granted by Noticee No. 2, the following was submitted by Noticee No. 2 vide his replies dated February 24, 2023, May 27, 2023 and July 26, 2023 and by way of his oral submissions during the hearings:

(a) Any action taken was neither in his personal capacity nor in his capacity as 'Chairman of Reliance ADA Group' but instead, by RCL. Noticee No. 2 was informed that the requirement of signing the CAMs was pursuant to newly adopted/ amended GPCL Policy which required 'confirmation' from the holding company above certain thresholds from a good business perspective for information/ noting purposes and that the policy did not envisage any approval from the holding company. *"Noticee No. 2 only counter signed such credit appraisal memos on behalf of Reliance Capital Limited without there being any requirement for Noticee No. 2 to exercise any due diligence or credit risk evaluation or check the credit worthiness of the borrowers."*

(b) Noticee No. 2 was not aware of RHFL Board's decision taken during February 11, 2019 and in any case, the said decision was applicable only to the management of RHFL.

(x) The relevant extract of Demand/ Call Loan policy issued on November 01, 2018 is reproduced below:

Table – 18

Amendments and deviations to Policy	Loans booked under GPCL Product Code in Branch code of "Corporate Branch" shall have a portfolio cap of Rs. 6750 crores. Any deviation or any transaction beyond this threshold shall require confirmation by the Holding Company.
--	--

(xi) Upon perusal of the said provision, I note that the policy provided for two scenarios wherein confirmation was required from the 'Holding Company' viz. any deviation from policy or when the lending is beyond the threshold of INR 6750 Crore. I note that the said Demand/ Call Loan policy was issued on November 01, 2018 after authorisation of Board of Directors

and any deviation of policy required ‘confirmation by the Holding Company’. During the course of hearing held on February 27, 2023, Noticee No. 2 was advised to provide clarification on the word ‘confirmation’ and the same was responded to by Noticee No. 2 vide his e-mail dated May 27, 2023. The query raised by SEBI and Noticee No. 2’s response is reproduced below:

Table – 19

Query raised during hearing held on February 27, 2023	Noticee No. 2’s response vide e-mail dated May 27, 2023
Noticee has submitted that as per GPCL policy, only confirmation of RCAP was required and not approval / sanction. What is the difference between ‘Confirmation’ and ‘Approval’? Further, what is the basis for granting such confirmation by RCAP and what is checked by RCAP before granting such confirmation?	1. Under the GPCL policy, only a confirmation of RCAP (as the holding company) was required from a good business practice perspective. The policy did not envisage any approval from the holding company. 2. The credit approval memos after processing and approval by the relevant RHFL teams were only required to be placed before RCAP (as a holding company) for information/ noting purposes, and not for the purpose of any further approval/ sanctioning of any loans.

(xii) I draw reference to the definition of ‘confirmation’ in the Black’s Law Dictionary¹⁷, which reads as follows- “a contract or written memorandum thereof, by which that which was infirm, difficult of proof, void, imperfect, or subject to be avoided is ratified, rendered valid and binding, made firm and unavoidable.” The aforesaid definition, in addition to a more common

¹⁷ Revised 4th Edition at Pag-371

understanding of the word, makes it clear that 'confirmation by the Holding Company' does not only imply 'informing the Holding Company' as argued by Noticee No. 2. Rather, confirmation implies an act on the part of the holding company to ratify/ approve the loan application which would otherwise have not been eligible for processing. Therefore, such an act of confirmation places a higher responsibility on the 'Holding Company' as it has to see that the processing of such an application does not result in adverse impact on its subsidiary-RHFL. Holding Company was under a bounden obligation to screen the application and process it only after it is satisfied that borrower will be able to comply with the conditions of the loan and will be in a position to repay the loans. As already discussed above, the CAMs itself highlighted the extremely weak financials of the borrowers and severe deviations from established and essential lending policy requirements, and if the management of the company or the holding company had exercised due caution and fulfilled its responsibility diligently, it would have been clear that the impugned GPC Loans did not deserve to be accepted for disbursal of monies.

(xiii) Further, Noticee No. 2 has submitted that he only provided confirmation on behalf of RCL. However, upon perusal of the applications put up before Noticee No. 2, I note that he had explicitly **approved** such loan applications. Also, these loan applications were explicitly approved by him in his capacity as '**Chairman, Reliance Group**' and not as a representative of RCL. In this regard, the relevant extracts of the CAMs pertaining to approval of loan of INR 220.80 Crore and INR 210 Crore to Citi Securities and Financial Services Private Limited (Noticee No. 10; Images 6-10) and Vinayak Ventures Private Limited (Noticee No. 13; Images 11-14) respectively are reproduced below:

Image – 6

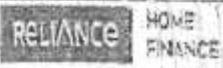
			
Approval Memo – Leadership Council			
Customer	Citi Securities and Financial Services Private Limited		
Product	GPCL (Limit)	Tenure	12 months
ROI	15%	PF	Nil
Los ID	To be generated		
Proposed Exposure	Rs. 220.80 crores		
Repayment	Bullet payment of principal & interest at the end of tenor		
Background			
Citi Securities and Financial Services Private Limited is a Private incorporated on 23 July 1990. It is classified as Non-government Company and is registered at Registrar of Companies, Mumbai. Its authorized share capital is Rs. 100,000,000 and its paid up capital is Rs. 5,000,000. It is involved in other financial intermediation. [This group includes financial intermediation other than that conducted by monetary institutions.]			

Image - 7

Deal Structure:
This facility is availed by Citi Securities and Financial Services Private Limited to meet the working capital requirement.
Security:
Charge on current assets.

Image – 8

Financials:		
(Rs. in Lacs)		
Summary of Balance Sheet as on	FY 2017-18	FY 2016-17
Assets		
Non-Current Assets		
Tangible Fixed Assets	0.01	0.01
Investments	6.64	6.64
Loans and Advances	21.89	21.51
Deferred Tax Assets (Net)	0.61	5.84
Current Assets		
Trade Receivables	-	0.27
Cash & Cash Equivalents	2.60	3.62
Others	0.35	0.35
Total Assets	32.09	38.24
Equity & Liabilities		
Equity		
Equity Share Capital	50.00	50.00
Reserves and Surplus	-17.97	-11.82
Current Liabilities		
Trade Payables	0.06	0.06
Total Liabilities	32.09	38.24
Statement of Profit & Loss	FY 2017-18	FY 2016-17
Income		
Income from Operations	3.20	3.69
Other Income	0.08	0.03
Total Income	3.27	3.72
Expenses		
Employee Benefits Expenses	2.40	1.96
Finance Cost	0.00	0.02
Other Expenses	1.85	1.43
Total Expenses	4.26	3.41
Profit/(Loss) before Tax	-0.98	0.31

Image – 9

		RELIANCE	HOME FINANCE
Tax Expenses		5.17	-5.36
Profit/(Loss) after Tax		-6.15	5.66

Deviations:

- FI waived
- PD waived
- Individual holding shares in applicant and holding company not on loan structure
- Eligibility not as per norms
- Disbursement to be done without creation of security
- Principal payment is bullet payment instead of monthly payment
- Maximum loan amount and Product CAP not as per norms
- ROI, PF and Foreclosure charges not as per norms
- Customer rating not done
- Escrow account not to be opened
- Monthly booking MIS not to be taken
- Cash flow statement not to be taken as principal to be repaid as bullet
- 51% Shareholding of the company not on deal structure
- Security PDCs not to be obtained

Image – 10

Proposed By	
 Mugdha Jain BCM – CRT	 Krutika Surve Manager - CRT
 Rajkumar M Head – REF Credit & Credit Risk	 Sangram Bayaskar BH
Approved By	
 Chairman Reliance Group	

Image- 11

RELIANCE HOME FINANCE			
Approval Memo – Leadership Council			
Customer	✓ Vinayak Ventures Private Limited		
Product	✓ GPCL (Limit)	Tenure	✓ 12 months
ROI	✓ 15%	PF	✓ Nil
Los ID	To be generated		
Proposed Exposure	✓ Rs. 210 crores		
Repayment	Bullet payment of principal & interest at the end of tenor		

Background:
 Vinayak Ventures Private Limited is a Private Company limited by Shares. It is registered with Registrar of Companies, Mumbai on May 13, 2009. It is a Non-govt company with an Authorized Capital of ₹ 1,00,000 (One Lakh Indian Rupees) and Paid Up Capital of ₹ 1,00,000 (One Lakh Indian Rupees).

Image- 12

Deal Structure:
 This facility is availed by Vinayak Ventures Private Limited to meet the working capital requirement.

Security:
 Charge on current assets.

Shareholding Pattern as on March 31, 2018:

Name Of Shareholder	No. of Shares Held	Value per Share	Total Nominal Value (in Rs.)
Vighnesh Advisory Services Private Limited	5,000	10	50,000
Vighnesh Consultancy Services Private Limited	5,000	10	50,000
Total	10,000		1,00,000

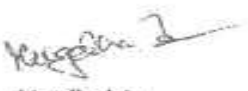
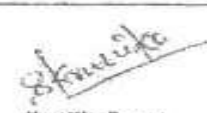
Financials: (Rs. in Lacs)

Summary of Balance Sheet as on	FY 2017-18	FY 2016-17
Assets		
Non-Current Assets - Investments	1.00	1.00
Current Assets		
Cash & cash equivalents	1.17	1.16
Loans and Advances	1.00	1.00
Total Assets	3.17	3.16
Equity & Liabilities		

Image- 13

		RELIANCE	HOME FINANCE
Equity			
Equity Share Capital		1.00	1.00
Reserves and Surplus		-0.65	-0.54
Current Liabilities		2.00	2.00
Trade Payables		0.82	0.70
Others			
Total Liabilities		3.17	3.16
Statement of Profit & Loss		FY 2017-18	FY 2016-17
Income		-	-
Expenses - Others		0.12	0.17
Total Expenses		0.12	0.17
Profit/(Loss) before Tax		-0.12	-0.17
Income Tax Expenses		-	-
Profit/(Loss) after Tax		-0.12	-0.17
Deviations:			
• FI waived • PD waived • Individual holding shares in applicant and holding company not on loan structure • Eligibility not as per norms • Disbursement to be done without creation of security • Principal payment is bullet payment instead of monthly payment • Minimum loan amount and Product CAP not as per norms • RO, PF and Foreclosure charges not as per norms • Customer rating not done • Escrow account not to be opened • Monthly booking MIS not to be taken • Cash flow statement not to be taken as principal to be repaid as bullet • 51% Shareholding of the company not on deal structure • Security PDCs not to be obtained			

Image- 14

RELIANCE HOME FINANCE	
Proposed By	
 Mugdha Jain BCM - CRT	 Krutika Surve Manager - CRT
 Rajkumar M Head - REF Credit & Credit Risk	 Sangram Baviskar BH
Approved By	
 Chairman Reliance Group	

(xiv) Noticee No. 2 granted explicit approval and that too in his capacity as 'Chairman, Reliance Group'. There is no mention of either 'confirmation' or 'Holding Company'/'RCL' in the said CAM. This completely contradicts the submissions of Noticee No. 2. As mentioned above, the Demand/ Call Loan policy provided for 'confirmation' by the 'Holding Company'. However, Noticee No. 2 has granted 'approval' to the loan applications in his capacity as 'Chairman, Reliance Group'. Further, as per submission of Noticee No. 2, he had granted such approval after the loan had already been disbursed. However, as per the available documents, the loans were disbursed on the same day as loan application. Even if the said submission of Noticee No. 2 is accepted, it establishes that such loans were granted in complete violation of the policy and the approvals were a mere formality with the ulterior motive – as shall be elaborated further in the subsequent paragraphs - to divert the funds of RHFL for the benefit of Reliance ADA group companies. I note that the approvals do not specify that they are being provided on behalf of RCL. Instead, the CAMs merely state that the approval is provided by Anil Ambani as Chairman of Reliance Group.

(xv) I also note the following based on a perusal of the aforementioned CAMs:

A. Citi Securities and Financial Services Private Limited

(a) Noticee No. 10's (Citi Securities and Financial Services Private Limited) application seeking loan of INR 220.80 Crore was submitted on March 19, 2019 (i.e. well after RHFL Board's decision on February 11, 2019 to not grant further GPC Loan) and intimation of approval of the said application was provided on the same date.

(b) The total assets of Noticee No. 10 at the end of FY 2017-18 were recorded as INR 32,09,000 (Rupees Thirty Two Lakhs Nine Thousand). The CAM recorded that Vinayak Ventures Private Limited had an income of INR 3,27,000 (Rupees Three Lakh Twenty Seven Thousand) and

expenses of INR 4,26,000 (Rupees Four Lakh Twenty Six Thousand) i.e. it was in loss of INR 98,000 (Rupees Ninety Eight Thousand).

(c) The INR 220.80 crore proposed loan facility was ostensibly for funding working capital of the borrower with a charge on its current assets. The weak financials of the company for FY17 and FY18, as reported in the CAM, did not even remotely indicate any business rationale for the borrower to require working capital to the tune of INR 220.80 crores, or indicate any ability to repay such sums. In addition, the proposed loan facility amount was to be secured by a charge on the borrower's current assets. For both the years for which financials were reported in the CAM, the current assets of the company were reported as less than INR 2.2 lakh. There was nothing in the CAM to argue or justify why RHFL could overlook these fatal and obvious issues and yet proceed to disburse the loan of INR 220.80 crore to such a company.

(d) The deviations recorded in CAM are as follows:

- Field Investigation waived
- Probability of Default waived
- Individual holding shares in applicant and holding company not on loan structure
- Eligibility not as per norms
- Disbursement to be done without creation of security
- Principal payment is bullet payment instead of monthly payment
- Maximum loan amount and Product CAP not as per norms
- ROI, PF and Foreclosure charges not as per norms
- Customer rating not done
- Escrow account not to be opened
- Monthly booking MIS not to be taken

- Cash flow statement not to be taken as principal to be repaid as bullet
- 51% Shareholding of the company not on deal structure
- Security PDCs not to be obtained

(e) Despite such weak financials, despite the absence of any cashflows and business, and despite the absence of anywhere near adequate security or any other mitigating collateral or assurance, undue haste was instead shown in approving the application on the same day. An entity having negligible income, assets, cashflows, and operations, and in fact running in loss, with no record of any mitigating circumstances or context whatsoever, was blindly granted loan of INR 220.80 Crore without even adequate security.

B. Vinayak Ventures Private Limited

(a) Noticee No. 13's (Vinayak Ventures Private Limited) application seeking loan of INR 210 Crore was submitted on March 19, 2019 (i.e. well after RHFL Board's decision on February 11, 2019 to not grant any further GPC Loan) and intimation of approval of the said application was provided on the same date.

(b) The total assets of Noticee No. 13 at the end of FY 2017-18 were recorded as INR 3,17,000 (Rupees Three Lakh Seventeen Thousand). The CAM recorded that Vinayak Ventures Private Limited had no income and was in fact in loss of INR 12,000 (Rupees Twelve Thousand).

(c) The INR 210 crore proposed loan facility was ostensibly for funding working capital of the borrower with a charge on its current assets. The weak financials of the company for FY17 and FY18, as reported in the CAM, did not even remotely indicate any business rationale for the borrower to require working capital to the tune of INR 210 crores, or indicate any ability to repay such sums. In addition, the proposed loan facility amount was to be secured by a charge on the

borrower's current assets. For both the years for which financials were reported in the CAM, the current assets of the company were reported as around INR 2.15 lakh. There was nothing in the CAM to argue or justify why RHFL could overlook these fatal and obvious issues and yet proceed to disburse the loan of INR 210 crores to such a company.

(d) The deviations recorded in CAM are as follows:

- Field Investigation waived
- Probability of Default waived
- Individual holding shares in applicant and holding company not on loan structure
- Eligibility not as per norms
- Disbursement to be done without creation of security
- Principal payment is bullet payment instead of monthly payment
- Maximum loan amount and Product CAP not as per norms
- ROI, PF and Foreclosure charges not as per norms
- Customer rating not done
- Escrow account not to be opened
- Monthly booking MIS not to be taken
- Cash flow statement not to be taken as principal to be repaid as bullet
- 51% Shareholding of the company not on deal structure
- Security PDCs not to be obtained

(e) Despite such weak financials, despite the absence of any cashflows and business, and despite the absence of anywhere near adequate security or any other mitigating collateral or assurance, undue haste was instead shown in approving the application on the same day.

An entity having negligible income, assets, cashflows, and operations, and in fact running in loss, with no record of any mitigating circumstances or context whatsoever, was blindly granted loan of INR 210 Crore without even adequate security.

(xvi) I note that Noticee No. 2 is certainly not a layman who is not aware of how commercial lending works, and of the implications of his signing these RHFL CAM documents. In fact, Noticee No. 2 has been part of governance structures of various companies whereby he was expected to take commercial and business decisions on behalf of the company, keeping in mind the interests of the companies and its shareholders. Noticee No. 2 cannot take refuge behind the policy requiring confirmation from holding company when the CAM itself had a pre-printed column of 'Approved By' "Chairman, Reliance Group" and Noticee No. 2 signed in the said column even though CAM nowhere mentioned 'confirmation' and 'holding company'. Further, it will not be wrong to expect from such an experienced member of Board of different companies to read the policy of RHFL which made it binding for seeking confirmation of holding company. Noticee No. 2 cannot say that such signature was given for information/ noting purposes when CAM itself recorded various deviations including weak financials of the borrowers and instead of granting such confirmation of holding company, Noticee No. 2 granted approval to the GPC loans in his capacity as 'Chairman, Reliance Group'.

(xvii) Such a crucial decision-making power pertaining to a supposedly professionally managed publicly listed Corporate entity (*engaged in utilizing huge amounts of borrowed funds for advancing towards housing & GPC Loans, and also governed by NHB/ RBI*), was exercised by an outside person who was not even an Executive Director or part of the management of RHFL. One would have expected that all the decisions that could significantly impact the fortunes of RHFL and all its

shareholders, ought to have been first approved internally, in compliance with the RHFL Board's directions and through RHFL Board-approved processes. Surprisingly, the investigation could not find any evidence to suggest that such an extra-ordinary power being enjoyed by Noticee No. 2 as Chairman of the Group had the backing of any Board Approval/ Board resolution or that he could approve the loan on behalf of the 'Holding Company'. Therefore, neither Noticee No. 1 nor Noticee No. 2 have provided any rationale to justify such self-assumed empowerment of Noticee no. 2 for taking such vital corporate decisions to sanction sizeable and imprudent loans in defiance of basic lending logic and discipline and the directions of the Board of RHFL, and which were financially disastrous for the company and its public shareholders.

Role of KMP in defying Board decision

Noticee 3 – CFO & Director

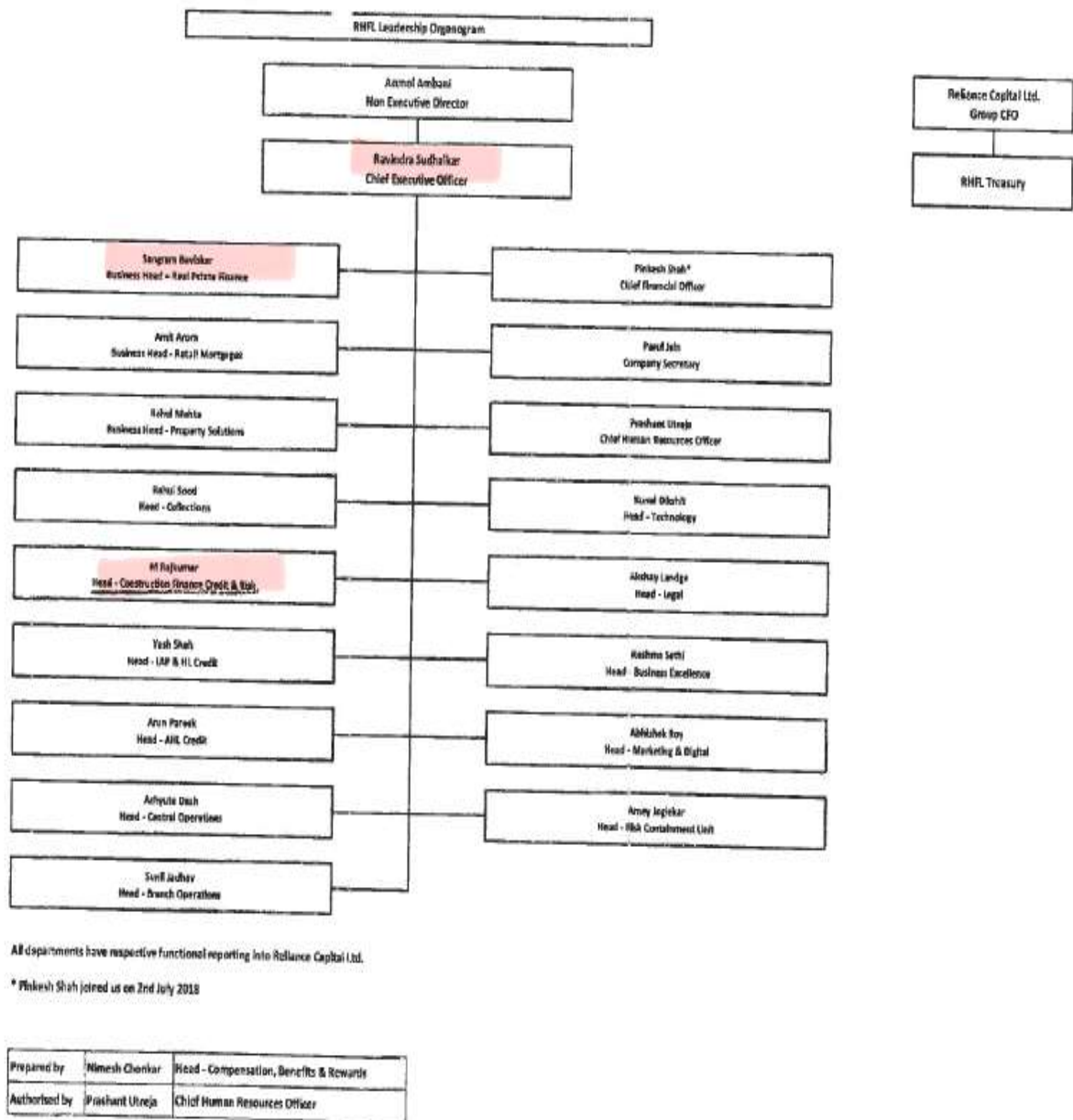
(xviii) Apart from being the CFO of RHFL at a point in time, Noticee No. 3 – Amit Bapna was also the CFO of RCL, the Holding Company of RHFL and a recipient of funds (INR 1432.07 Crore) diverted under the guise of GPC Loans. Amit Bapna also attended the RHFL Board Meeting held on February 11, 2019 wherein RHFL was directed by its Board not to issue any more GPC Loans. He was also made a member of the Committee of Directors to review the exposure of RHFL to GPC Loans on a bi-monthly basis. Therefore, not only was Amit Bapna a part of GPCL process, but he was also aware of the deliberations and directions of the Board in its meeting held on February 11, 2019. Though his signature is not part of the CAMs approved by Anil Ambani subsequent to the aforesaid Board decision, having continued to function as director of RHFL, member of the Credit Committee, as well as CFO of RCL (*the Holding Company which was supposed to 'confirm' GPCLs and of which Anil Ambani was Chairman*), he was clearly in a vantage position. This leads to the reasonable inference, by preponderance of probability, of his knowledge

of approvals granted by Noticee No. 2 to GPCL that were prohibited by RHFL's Board decision. Despite continuing as director of RHFL and despite being appointed by the board as part of the three-member committee to review the GPCL exposures, there is no evidence of him having taken any measure to ensure compliance with the Board's decision or to ensure that funds were not diverted from RHFL.

Noticee 4 - CEO

- (xix) The CAMs put up for approval by Noticee No. 2 – Anil Ambani, as can be seen from the abovementioned illustration were proposed by Mugdha Jain (BCM-CRT), Kruttika Surve (Manager-CRT), Rajkumar M (Head-REF Credit & Credit Risk) and Sangram Baviskar (BH). Apart from violation of Board directions to not grant corporate loans, the proposals were also in violation of resolution passed in RHFL Board meeting dated April 24, 2017 wherein Credit Committee comprising of CEO, Chief Risk Officer and One Director of RHFL was authorized to approve loans of more than INR 5 Crore. However, as noted above, such proposals do not appear to have been put up to Credit Committee for its approval.
- (xx) The resolution of April 24, 2017 further states that Noticee Nos. 3 and 4 were *authorised to do all such acts and things and deal with all such matters and take all such steps as may be required to give effect to the said resolution*. It is understood from the said resolution that Noticee Nos. 3 and 4 were liable for giving effect to the resolution. In this regard, vide RHFL Letter dated December 24, 2021, Parul Jain (Company Secretary & Compliance Officer) submitted the organogram of the organization which is reproduced below:

Image- 15



(xxi) As can be seen in the organogram above, Noticee No. 4 (Ravindra Sudhalkar), who was RHFL's CEO, was in-charge of operations of RHFL and all department heads reported to him. Two of the proposers of the CAM (Rajkumar M and Sangram Baviskar) reported to Noticee No. 4.

(xxii) In his statement, recorded on January 04, 2022, Raj Kumar M (Head – Real Estate Credit & Credit Risk) provided the following information:

- He reported to Chief Risk Officer (CRO) until November 2018 and after resignation of CRO, he reported to CEO (Noticee No. 4).
- Group CFO (Amit Bapna/ Noticee No. 3) used to refer the GPCL borrowers for loan processing.
- The instructions for processing GPCL applications used to originate from Amit Bapna and seconded by Ravindra Sudhalkar. After recommendation from CRO, the applications were approved by Amit Bapna and Ravindra Sudhalkar. RHFL's CFO used to disburse the approved loans.
- It was assured by Group CFO (Amit Bapna) and RHFL CEO (Ravindra Sudhalkar) that this money would come back as the entities would be getting cash flows within a year's time.
- After resignation of CRO, he was also reporting to Group Credit Risk Officer-Credit Risk related to GPCL Loans.

(xxiii) In his statement, recorded on January 07, 2022, Krishnan Gopalakrishnan (CRO from November 2016 to November 2018) provided the following information:

- He reported to CEO (Ravindra Sudhalkar/ Noticee No. 4) and *“also had a dotted line reporting to Group CRO (Lav Chaturvedi) & the Group Chief Credit Officer (Dhanunjay Tiwari).”*
- *“Mr Amit Bapna (Group CFO) used to refer many of the GPCL loans.”*
- The instructions for loan applications originated from Amit Bapna and forwarded by Ravindra Sudhalkar to his team for preparing CAM. CAM was put up for approval to CEO (Ravindra Sudhalkar) and one Director (Amit Bapna). Once approved, the CFO of RHFL used to disburse the approved loans.

- The rationale for giving GPC Loans to borrowers with weak financials was the ADAG group's backing and strength and also the fact that the case was brought by the Group's CFO (Amit Bapna).

(xxiv) The aforementioned statements of officials of RHFL, merely reiterate the inference drawn from the organogram and the documents available on record. The deliberate non-compliance of procedures by RHFL and its KMPs while considering the GPC Loan applications is all too obvious. When Noticee No. 2 started to approve loans post the February 11, 2019 decision of RHFL Board (prohibiting issuance of any more GPC loans) the persons who put up the loan proposals i.e. Raj Kumar M and Sangram Bhavsar (*as well as Mugdha Jain and Krutika Surve*) continued to report to the CEO- Ravindra Sudhalkar. Therefore, they could not have put up the said loan proposals to Anil Ambani – Noticee No. 2 without the knowledge and consent of the CEO. It is not the case of either RHFL or Noticee Nos. 3-5 that the said proposals which were sent after February 11, 2019 to the 'Holding Company' were without their knowledge. Even if it is considered that Demand/ Call Loan policy provided for confirmation by 'Holding Company' in case of deviation, the CAMs must have to go through Credit Committee before being put up to 'Holding Company' for 'confirmation'. Further, the February 11, 2019 decision of RHFL Board not to grant any further GPCL corporate loans clearly superseded the Demand/ Call Loan policy, and meant that the said policy was no longer applicable. Therefore, it can be concluded that the said proposals were sent with the approval of RHFL and Noticee Nos. 3-5, in complete violation of RHFL Board's directions not to grant corporate loans, as well as policy approved by RHFL Board pertaining to Credit Committee.

(xxv) Noticee no. 4 has also admitted that the borrower entities were indeed part of the ADA Group due to which the loan sanctioning authorities of the Company did not subject these companies to the laid down procedure of

processing loan applications and instead adopted a generous approach while sanctioning loans to these entities, ignoring all the red flags pointing to a subsequent default by these entities.

Noticee 5 – CFO

(xxvi) Noticee No. 5 (Pinkesh R. Shah) was the CFO of RHFL from August 2018 to May 2020. He was a KMP in the Company, as defined in Section 2(51) of the Companies Act, 2013, by virtue of his designation as CFO. Though Noticee has submitted that as CFO he was not involved in business functions of RHFL and only dealt with its finance functions, I note from the statements of Raj Kumar M (Head – Real Estate Credit & Credit Risk) and Krishnan Gopalkrishnan (CRO) to SEBI that CFO of RHFL used to disburse the loans approved by the Credit Committee. Noticee No. 5 has repeatedly contested the allegation that he used to disburse the loans. In addition to the statements recorded, I have also perused documents submitted by the Company Secretary on behalf of RHFL. I find that while there is no explicit reference to Noticee No. 5 being responsible for disbursement of loans, the role of CFO as mandated in the LODR Regulations as well as the roles and responsibilities as documented by the Company make it clear that CFO bore responsibility for all accounting and financial activities of the company. This being the case, the Noticee No. 5's attempt to distance himself from anything to do with disbursement of the impugned loans cannot be accepted. In his own recorded statement Noticee No. 5 has accepted that he had observed deviations with respect to lending. Yet, there is no record of Noticee No. 5 having raised objections to the 'impugned loans' despite the financial impact of such loans on the Company. At any rate, as CFO of RHFL, Noticee No. 5 presented the financials of the company for FY18-19, which clearly showed a marked increase in GPC loans as of March 31, 2019, in defiance of the clear instructions of the Board of RHFL from the Board meeting of February 11, 2019. Noticee No. 5 had also attended the RHFL Board Meeting held on

March 28, 2019 wherein then statutory auditor-PWC had presented to the Board that GPC loans were sanctioned without adequate security and without justification based on the net worth and business of the borrowers; Board had expressed its deep concern with respect to these observations and directed management to rectify the position. As CFO, he was also interacting with two sets of auditors for the financials of FY18-19, both of whom had raised fundamental questions around the prudence, viability and nature of the GPC loans.

54.4.5 Hasty Approvals to GPCL Borrowers' Applications

- (i) It is noted that that out of 70 GPC loan documents furnished by RHFL, as many as 62 Loan Applications amounting to INR 5552.67 Crore (65.55% of INR 8470.65 Crore) were approved on the date of the application for such loans itself. Further, in 27 instances, loan amounts aggregating to INR 1940.58 Crore (22.91% of INR 8470.65 Crore) were both approved as well as disbursed on the same date on which the applications for availing loans were made by the GPCL Borrower entities. The details of such cases are as under:

Table – 20

Date of Application	Name of the Borrower	Amount of Disbursement (INR Cr.)	Date of disbursal
29/03/2019	Summit Ceminfra Private Limited	32	29/03/2019
28/02/2019	Gamesa Investment Management Private Limited	60	28/02/2019
28/12/2018	Netizen Engineering Private Limited	50.60	28/12/2018
29/10/2018	Azalia Distribution Private Limited	121.50	29/10/2018
18/10/2018	Gamesa Investment Management Private Limited	50	18/10/2018
01/10/2018	Crest Logistics And Engineers Private Limited	11	01/10/2018
19/09/2018	Phi Management Solutions Private Limited	210	19/09/2018

19/09/2018	Gamesa Investment Management Private Limited	200	19/09/2018
12/09/2018	Reliance Cleangen Limited	40.48	12/09/2018
11/09/2018	Mohanbir Hi-Tech Build Private Limited	80	11/09/2018
11/09/2018	Medybiz Private Limited	150	11/09/2018
24/08/2018	Rpl Star Power Private Limited	50	24/08/2018
23/08/2018	Rpl Sunlight Power Private Limited	47	23/08/2018
22/08/2018	Rpl Star Power Private Limited	50	22/08/2018
22/08/2018	Rpl Solar Power Private Limited	50	22/08/2018
22/08/2018	Worldcom Solutions Limited	50	22/08/2018
22/08/2018	Species Commerce And Trade Private Limited	50	22/08/2018
20/08/2018	Indian Agri Services Private Limited	100	20/08/2018
09/08/2018	Rpl Surya Power Private Limited	64	09/08/2018
08/08/2018	Crest Logistics And Engineers Private Limited	42	08/08/2018
24/07/2018	Adhar Project Management And Consultancy Private Limited	25	24/07/2018
31/05/2018	Species Commerce And Trade Private Limited	71	31/05/2018
31/05/2018	Tulip Advisors Private Limited	55	31/05/2018
31/05/2018	Skyline Global Trade Private Limited	71	31/05/2018
30/05/2018	Tulip Advisors Private Limited	100	30/05/2018
29/05/2018	Tulip Advisors Private Limited	60	29/05/2018
29/05/2018	Hirma Power Limited	50	29/05/2018
	Total	1,940.58	

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

- (ii) In one instance of GPCL lending, the loan was disbursed even before the date of sanction letter and details of same are reproduced below:

Table - 21

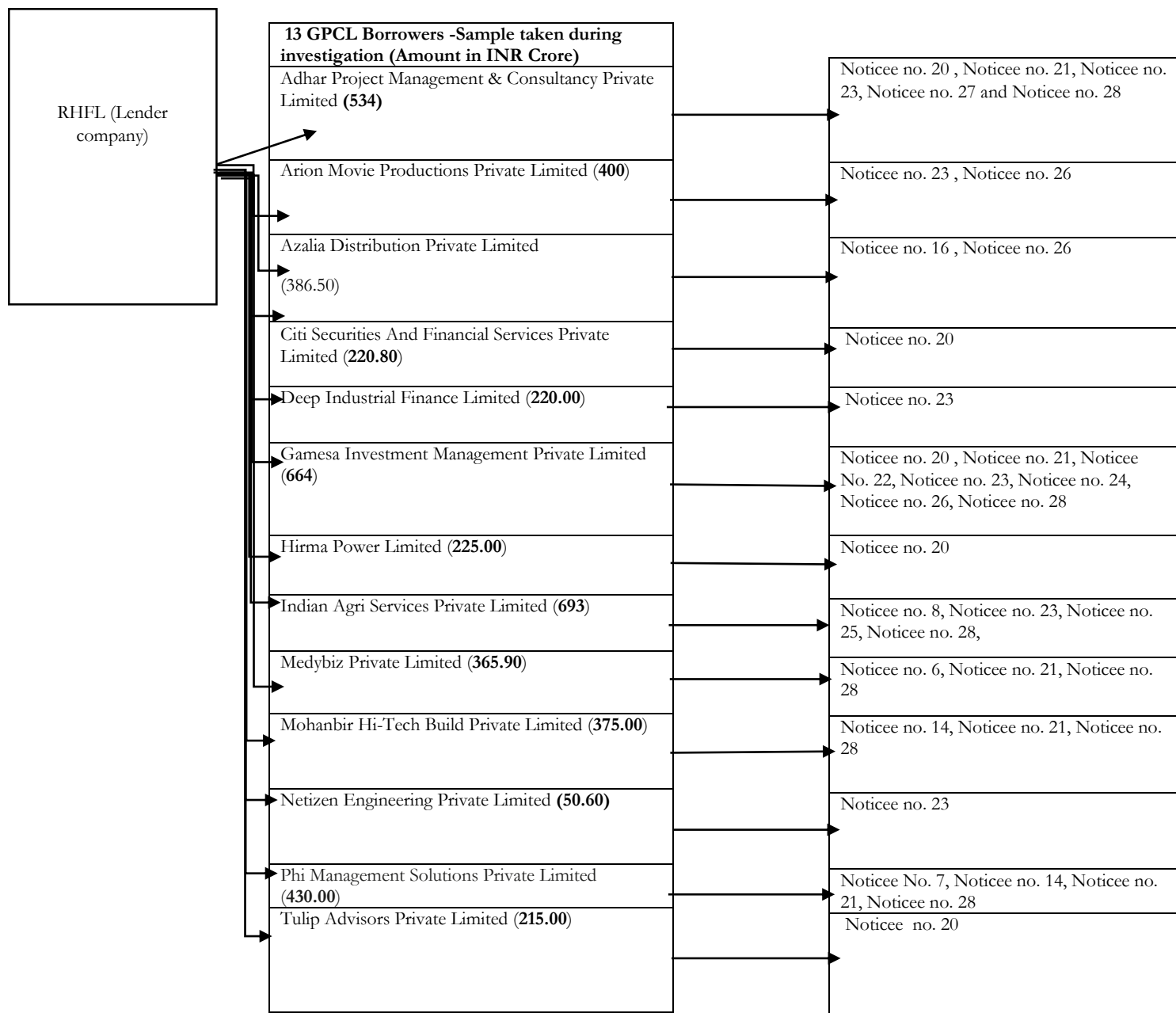
Sr. No.	Name of the borrower	Amount Disbursed (INR Cr.)	Date of Sanction letter	Date of disbursement as per bank statement	Difference (no. of days)
1	Aadhar Project Management And Consultancy Pvt. Ltd.	100	30-Apr-18	27-Apr-18	3

54.5 Connection between Noticees who approved the loans/ managed affairs of RHFL, Borrowers and Reliance ADA Group

54.5.1 The following image pictorially represents the transfer of funds from RHFL to GPCL borrowers and onward borrowers who are Noticees in these proceedings:

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Image- 16



54.5.2 Out of the 45 GPCL borrower entities, 41 entities share common addresses with at least one of such other borrower entities. In fact, all such 41 entities are found to be located at 8 common addresses in Mumbai. Further, as

per details available on MCA website, some of the entities share common email addresses. The total amount extended as GPCL to these 41 entities was around INR 7,822.90 Crore (92.35% of total amount of GPCL of INR 8470.65 Crore), and the details of such common addresses have been highlighted in row **A to H** in the table below, while the details of common email address are mentioned in the subsequent table:

Table - 22 (GPCL Borrowers having same addresses)

Sr. No.	Name of GPCL Borrower entities	Amount of GPCL (In INR Crore)
1.	Deep Industrial Finance Limited	220.00
2.	Neptune Steel Strips Limited	102.50
3.	Pearl Housing Finance India Limited	200.00
4.	Traitrya Construction Finance Limited	185.00
5.	Valuecorp Securities and Finance Limited	118.49
6.	Vishvakarma Equipment Finance (India) Limited	200.00
7.	CITI Securities and Financial Services Pvt. Ltd.	220.80
A	Common Address : 24/26, Cama Building, 1st Floor, Dalal Street, Fort, Mumbai	
8.	RPL Solar Power Pvt. Ltd.	85.00
9.	RPL Star Power Pvt. Ltd.	100.00
10.	RPL Sunlight Power Pvt. Ltd.	47.00
11.	RPL Surya Power Pvt. Ltd.	64.00
B	Common Address: 502, Plot No. 91/94, Prabhat Colony, Santa Cruz East, Mumbai	
12.	Adhar Project Management and Consultancy Pvt.	220.00
13.	Gamesa Investment Management Pvt. Ltd.	564.21
14.	Medybiz Pvt. Ltd.	325.90
15.	Netizen Engineering Pvt. Ltd.	214.54
16.	Phi Management Solutions Pvt. Ltd.	430.00
17.	Adhar Property Consultancy Pvt. Ltd.	189.20
18.	Adhar Real Estate Consultancy Pvt. Ltd.	202.40
19.	Nationwide Communication Pvt. Ltd.	175.00
C	Common Address: 6th Floor, Manek Mahal, 90 Veer Nariman Road, Mumbai	
20.	Skyline Global Trade Pvt. Ltd.	91.00
21.	Space Trade Enterprises Pvt. Ltd.	136.612
22.	Species Commerce and Trade Pvt. Ltd.	121.00
23.	Crest Logistics and Engineers Pvt. Ltd.^	160.50
24.	Hirma Power Limited	225.00

25.	Jayamkondam Power Limited	104.00
26.	Summit Ceminfra Pvt. Ltd.	83.00
27.	Tulip Advisors Pvt. Ltd.	215.00
28.	Worldcom Solutions Limited	50.00
D	Common Address: 7th Floor, Raheja Point I, Jawaharlal Nehru Nagar, Vakola Market, Santa Cruz East, Mumbai	
29.	Accura Productions Pvt. Ltd.	186.74
30.	Arion Movie Productions Pvt. Ltd.	402.39
31.	Celebrita Mediahouse Pvt. Ltd.	210.00
32.	Edrishti Movies Pvt. Ltd.	200.96
33.	Ippy Entertainment Pvt. Ltd.	196.33
34.	Pifiniti Movies Pvt. Ltd.	188.66
35.	Wallace Movies and Entertainment Pvt. Ltd.	178.41
E	Common Address: 8th Floor, 803/804, Lotus Grandeur, Veera Desai Road, Andheri West, Mumbai	
36.	Indian Agri Services Pvt. Ltd.	433.15
37.	Mohanbir Hi-Tech Build Pvt. Ltd.	305.00
F	Common Address: Dev House, 260-261, Tribhuvan Complex, Ishwar Nagar, New Friends Colony New Delhi	
38.	Reliance Cleangen Limited^	40.48
39.	Vinayak Ventures Pvt. Ltd.	221.13
G	Common Address: H Block, 1st Floor, Dhurubhai Ambani Knowledge City, Kopar Khairane, Navi Mumbai	
40.	Kunjbihari Developers Pvt. Ltd.	70.00
41.	RPL Aditya Power Pvt. Ltd.	139.50
H	Common Address: Plot Bearing CTS No. C/1361 B1/1 of at Pali Hill, Bandra West, Mumbai	
Total	41 entities	7822.90

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

^ This entity is also an Onward Borrower

Table - 23

Sr. No.	Registered email ID	Details of GPCL Borrower entity
1	adhar.project@gmail.com	Entities at serial no. 12, 13 and 37 in Table - 22
2	taxcompliance2022@gmail.com	Entities at serial no. 31, 32 and 33 in Table - 22
3	vijayakar@vbdesai.com	Entities at serial no. 1, 2, 3, 4, 5, 6 and 7 in Table - 22

54.5.3 It is also noted that certain GPCL Borrower entities not only have cross shareholding amongst themselves but the GPCL borrowers are effectively owned by Reliance Group entities, details of which have been captured in the following table:

Table - 24

Details of Shareholding of GPCL Borrowers								
Name of Shareholder	Aadhar Project Mgt. Pvt. Ltd. (%)	Azalia Distribution Pvt. Ltd. (%)	Gamesa Investment Mgt. Pvt. Ltd. (%)	Hirma Power Ltd. (%)	Indian Agri Services Pvt. Ltd. (%)	Medybiz Pvt. Ltd. (%)	Mohanbir Hi-Tech Build Pvt. Ltd. (%)	Phi Mgt. Solutions Pvt. Ltd. (%)
Reliance Entertainment Networks Pvt. Ltd. (formerly Reliance Land Pvt. Ltd.)	18	-	-	-	12.34	-	-	-
Reliance Alpha Services Pvt. Ltd.	26	-	-	-	40.74	-	-	40
Reliance Venture Asset Mgt. Pvt. Ltd.	18	-	-	-	-	-	-	-
Reliance Financial Advisory Services Ltd.	19	-	-	-	23.46	-	-	-
Indian Agri Services Pvt. Ltd.	19	-	-	-	-	-	-	-
Vrushvik Broadcast Pvt. Ltd.	-	75	-	-	-	-	-	-
Reliance Big Broadcasting Pvt. Ltd.	-	25	-	-	-	-	-	-

Aadhar Project Mgt. Pvt. Ltd.	-	-	99.99	-	23.46	-	99.99	-
Jayamkondam Power Ltd.	-	-	-	99.99	-	-	-	-
Reliance Interactive Advisors Pvt. Ltd.	-	-	-	-	-	99.96	-	-
Reliance Value Services Pvt. Ltd.	-	-	-	-	-	-	-	50
Phi Capital Services LLP	-	-	-	-	-	-	-	10
Total	100	100	99.99	99.99	100	99.96	99.99	100

54.5.4 SEBI's investigation further brought to light that some of the GPCL Borrower entities, and the entities to whom funds were lent onward by such borrower entities, also share the same address. Several of such connected companies (GPCL Borrower entities and onward borrower entities) are also found to have common addresses as recorded in the table below:

Table – 25 : Common address and email id

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

54.5.5 I also note that several GPCL borrowers and onward borrower entities share the same persons as Directors on their respective Boards. Names of such

person who functioned on the boards of both GPCL borrowers and onward borrowers as directors are recorded in the table below:

Table - 26 : Common directorships

Name of the Director	GPCL Borrower	Onward Borrowers
Ashok Kumar Ramnivas Thalia	1. Hirma Power Limited 2. Medybiz Private Limited 3. Tulip Advisors Private Limited	1. Jayamkondam Power Limited 2. Skyline Global Trade Private Limited 3. Space Trade Enterprises Private Limited
Basant Kumar Vijay Singh Varma	1. Adhar Project Management & Consultancy Private Limited 2. Indian Agri Services Private Limited 3. Phi Management Solutions Private Limited	*
Ekta Yadav	1. Mohanbir Hi-Tech Build Private Limited	1. Adhar Property Consultancy Private Limited 2. Reliance Alpha Services Private Limited 3. Reliance Entertainment Networks Private Limited (Formerly Reliance Land Private Limited) 4. Reliance Venture Asset Management Private Limited
Laxminarayan Ramlal Sharma	1. Arion Movie 2. Hirma Power Limited	1. Jayamkondam Power Limited 2. Reliance Value Services Private Limited
Mayank Chimanbhai Padiya	1. Hirma Power Limited 2. Tulip Advisors Private Limited 3. Vinayak Ventures Private Limited	1. Skyline Global Trade Private Limited 2. Space Trade Enterprises Private Limited

Narendra Laxminarayan Sharma	1. Azalia Distribution Private Limited 2. Gamesa Investment Management Private Limited	
Nishant Sinha	1. Netizen Engineering Private Limited	2. Sapphire Cable & Services Private Limited
Sachin Seth	1. Adhar Project Management & Consultancy Private Limited 2. Gamesa Investment Management Private Limited 3. Indian Agri Services Private Limited 4. Medybiz Private Limited 5. Phi Management Solutions Private Limited	1. Adhar Property Consultancy Private Limited 2. Adhar Real Estate Consultancy Private Limited 3. Reliance Alpha Services Private Limited 4. Reliance Entertainment Networks Private Limited (Formerly Reliance Land Private Limited) 5. Reliance Value Services Private Limited

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

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

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

Table - 27

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

54.5.7 I note that many of the entities to whom funds were onward transferred/ advanced by GPCL borrower companies of RHFL were found to be entities related to promoters of RHFL itself. As per disclosures made in the Annual Reports of RHFL and RCL for the Financial Year 2018-19, the following entities are related to Noticee No. 2:

Table - 28

Sr. No.	Name of the entity	Relationship to the promoters/ Noticee No. 2
1	Reliance Capital Limited (<i>Noticee no. 28</i>)	Reliance Capital Limited is the holding company of RHFL and Mr. Anil D. Ambani is the individual promoter of Reliance Capital Limited and is disclosed to be “the person having significant influence during the year” on RCL.
2	Reliance Commercial Finance Limited (<i>Noticee no. 23</i>)	Reliance Commercial Finance Limited is the subsidiary of Reliance Capital Limited (as per annual report of RCL for the year FY 2018-19) and hence, is a company under “significant influence” and indirect control of Mr. Anil D. Ambani.
3	Reliance Exchangenext Limited (<i>Noticee no. 22</i>)	Reliance Exchangenext Limited is the subsidiary of Reliance Capital Limited (as per annual report of RCL for the year FY 2018-19) and hence, is a company under “significant influence” and indirect control of Mr. Anil D. Ambani.
4	Reliance Big Entertainment Private Limited (<i>Noticee no. 27</i>)	Reliance Big Entertainment Private Limited is disclosed as an enterprise over which Mr. Anil D. Ambani has significant influence as per the annual report of RCL for the year FY 2018-19.
5	Reliance Cleangen Limited (<i>Noticee no. 24</i>)	Reliance Cleangen Limited is disclosed as an enterprise over which Mr. Anil D. Ambani has significant influence as per the annual report of RCL for the year FY 2018-19.
6	Reliance Unicorn Enterprises Private Limited (<i>Noticee no. 21</i>)	Reliance Unicorn Enterprises Private Limited share common registered address with Reliance Business Broadcast News Holdings Limited
7	Reliance Business Broadcast News Holdings Limited (<i>Noticee no. 25</i>)	Reliance Business Broadcast News Holdings Limited share common registered address with Reliance Unicorn Enterprises Private Limited. Common Directors with Reliance Commercial Finance Limited and Reliance Broadcast Network.
8	Reliance Broadcast Network Limited (<i>Noticee no. 26</i>)	Reliance Broadcast Network Limited has common directors with RHFL, Reliance Commercial Finance Limited and Reliance Business Broadcast News Holdings Limited. BIG FM Is owned by Reliance Broadcast Network Limited which is a group company of Reliance ADAG.

9	Crest Logistics and Engineers Private Limited (Now Known as CLE PRIVATE LIMITED) (Noticee no. 20)	This is a promoter group entity.
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54.5.8 Based on the information provided by the borrower entities, it is observed that an amount of INR 4013.43 Crore received by the GPCL Borrower entities from RHFL has been onward lent to the aforesaid promoter related entities. The amounts transferred are listed in the Table below:

Table - 29

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

54.5.9 The details of onward lending made by GPCL borrower entities, as per their submissions, are tabulated herein below:

Table - 30

Sr. no.	Disbursal Date	GPCL Borrower Entity	Amount (INR Cr.)	Date of onward lending	Onward Borrower Entity	Amount (INR Cr.)	Percent age of Onward Lending
1.	27-Apr-18	Adhar Project Management & Consultancy Pvt. Ltd.	100.00	27-Apr-18	Reliance Unicorn Enterprises Pvt. Ltd.	19.00	100.00 %
2.				27-Apr-18	Crest Logistics and Engineers Pvt. Ltd.	15.10	
3.				27-Apr-18	Reliance Capital Ltd.	65.90	
4.	23-Jul-18	Adhar Project Management & Consultancy Pvt. Ltd.	25.00	23-Jul-18	Reliance Capital Ltd.	25.00	100.00 %
5.	08-Aug-18	Adhar Project Management & Consultancy Pvt. Ltd.	50.00	08-Aug-18	Reliance Capital Ltd.	50.00	100.00 %
6.	09-Aug-18	Adhar Project Management & Consultancy Pvt. Ltd.	43.48	09-Aug-18	Reliance Big Entertainment Pvt Ltd	43.48	100.00 %
7.	10-Aug-18	Adhar Project Management & Consultancy Pvt. Ltd.	51.12	10-Aug-18	Reliance Commercial Finance Ltd.	51.12	100.00 %
8.	06-Sep-18	Adhar Project Management & Consultancy Pvt. Ltd.	45.00	06-Sep-18	Reliance Big Entertainment Pvt Ltd	24.20	100.22 %
9.				06-Sep-18	Reliance Capital Ltd.	20.90	
10.	04-Oct-18	Adhar Project Management & Consultancy Pvt. Ltd.	25.00	04-Oct-18	Reliance Capital Ltd.	25.00	100.00 %
11.	30-Oct-18	Adhar Project Management & Consultancy Pvt. Ltd.	95.00	30-Oct-18	Crest Logistics and Engineers Pvt. Ltd.	95.00	100.00 %

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

Sr. no.	Disbursal Date	GPCL Borrower Entity	Amount (INR Cr.)	Date of onward lending	Onward Borrower Entity	Amount (INR Cr.)	Percent age of Onward Lending
24.				30-Oct-18	Reliance Cleangen Limited	11.00	
25.				30-Oct-18	Reliance Unicorn Enterprises Pvt. Ltd.	0.80	
26.	06-Nov-18	Gamesa Investment Mgt. Pvt. Ltd.	100.00	06-Nov-18	Reliance Capital Ltd.	100.00	100.00 %
27.	28-Feb-19	Gamesa Investment Mgt. Pvt. Ltd.	60.00	28-Feb-19	Reliance Commercial Finance Ltd.	60.00	100.00 %
28.	01-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	20.00	01-Mar-19	Reliance Commercial Finance Ltd.	20.00	100.00 %
29.	13-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	35.00	13-Mar-19	Reliance Capital Ltd.	20.27	100.00 %
30.				13-Mar-19	Reliance Exchangenext Limited	14.73	
31.	18-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	144.00	18-Mar-19	Reliance Commercial Finance Ltd.	144.00	100.00 %
32.	29-May-18	Hirma Power Limited	50.00	29-May-18	Crest Logistics and Engineers Pvt. Ltd.	49.40	98.80%
33.	22-Mar-19	Hirma Power Limited	175.00	22-Mar-19	Crest Logistics and Engineers Pvt. Ltd.	175.00	100.00 %
34.	18-Apr-18	Indian Agri Services Pvt. Ltd.	200.00	18-Apr-18	Reliance Capital Ltd.	200.00	100.00 %
35.	12-Jul-18	Indian Agri Services Pvt. Ltd.	100.00	12-Jul-18	Reliance Commercial Finance Ltd.	100.00	100.00 %
36.	20-Aug-18	Indian Agri Services Pvt. Ltd.	100.00	20-Aug-18	Reliance Capital Ltd.	100.00	100.00 %

Sr. no.	Disbursal Date	GPCL Borrower Entity	Amount (INR Cr.)	Date of onward lending	Onward Borrower Entity	Amount (INR Cr.)	Percent age of Onward Lending
37.	06-Sep-18	Indian Agri Services Pvt. Ltd.	198.00	06-Sep-18	Reliance Business Broadcasr News Holding Ltd.	198.00	100.00 %
38.	05-Nov-18	Indian Agri Services Pvt. Ltd.	20.00	05-Nov-18	Phi Management Solutions Pvt. Ltd.	20.00	100.00 %
39.	01-Mar-19	Indian Agri Services Pvt. Ltd.	50.00	01-Mar-19	Reliance Commercial Finance Ltd.	50.00	100.00 %
40.	13-Mar-19	Indian Agri Services Pvt. Ltd.	25.00	13-Mar-19	Reliance Capital Ltd.	25.00	100.00 %
41.	10-Sep-18	Medybiz Private Limited	150.00	10-Sep-18	Reliance Capital Ltd.	150.00	100.00 %
42.	10-Oct-18	Medybiz Private Limited	40.00	10-Oct-18	Reliance Capital Ltd.	40.00	100.00 %
43.	12-Oct-18	Medybiz Private Limited	100.00	12-Oct-18	Adhar Project Management & Consultancy Pvt. Ltd.	100.00	100.00 %
44.	19-Nov-18	Medybiz Private Limited	75.90	19-Nov-18	Reliance Unicorn Enterprises Pvt. Ltd.	75.90	100.00 %
45.	10-Sep-18	Mohanbir Hi-Tech Build Private Limited	80.00	10-Sep-18	Reliance Capital Ltd.	80.00	100.00 %
46.	19-Sep-18	Mohanbir Hi-Tech Build Private Limited	70.00	19-Sep-18	Reliance Capital Ltd.	70.00	100.00 %
47.	14-Nov-18	Mohanbir Hi-Tech Build Private Limited	200.00	14-Nov-18	Reliance Unicorn Enterprises Pvt. Ltd.	200.00	100.00 %
48.	18-Mar-19	Mohanbir Hi-Tech Build Private Limited	25.00	18-Mar-19	Gamesa Investment Mgt. Pvt. Ltd.	25.00	100.00 %

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

54.5.10 I note that the investigation revealed that out of the total amount of GPCL of INR 4,944.34 Crore received by the aforesaid 13 entities, the major portion amounting to INR 4,533.43 Crore (91.69% of the total GPCL) was lent

onward by such borrower entities. In around 40 instances of such onward lending (shaded in blue at Serial no. 1, 2, 3, 4 etc. in the Table above), the amount that was lent onwards was 100% of the amount, which was lent by RHFL to the GPCL Borrower entities while in many other instances, the said amount of onward transfer was more than 98% of the total amount received from RHFL. Further, in 54 instances, such onward lending was done on the same date (dated highlighted in green shade in the Table above) by the borrower entities.

54.5.11 As mentioned in the preceding paragraphs, I note that out of 45 GPCL borrowers, 41 such entities shared common addresses with at least one of such other borrower entities. Further, many of the GPCL borrowers shared same registered e-mail ID. There were instances where GPCL borrowers and Onward Borrowers shared common addresses. In addition to the same, some of the GPCL borrowers and Onward Borrowers were having same persons as Directors and as per the statements recorded by certain directors of GPCL borrowers, they were past/ current directors of Reliance ADA Group itself.

54.5.12 In view of the aforesaid details and the observations made in the preceding paragraphs, it is reasonable to infer that a major portion of GPC loans was extended by RHFL to GPCL Borrower companies only for the purpose of further transferring such loan amounts to promoter and promoter related entities. GPCL Borrowers appear to have acted as mere conduits to obtain loans from RHFL only to immediately pass on those loans onwards to other promoter linked entities. The purpose behind such layering of funds transfers under the garb of advancing GPCL appears to be to hide the facts that the ultimate beneficiaries of such loans are in fact Reliance Capital Limited (Noticee no.28) and other promoter related entities. A pictorial representation of such fund transfer from RHFL to GPCL borrowers and onward to other Noticees is provided as **Annexure A** to this Order.

54.5.15 With this, clarity now emerges as to why the RHFL Management and Noticee 2, all of whom are professionals with knowledge of business and finance, approved GPC loans running into hundreds of crores of Rupees to non-descript borrowers with stunningly weak financials and business operations, while deviating from and closing their eyes to even the most basic of due diligence processes. The only reasonable explanation, by overwhelming preponderance of probability, that can explain the indiscriminate lending, the blatant defiance of the directions of the RHFL Board, is that all this was a fraudulent device and artifice put together to divert money away from a listed company by subterfuge.

54.5.16 Some of the borrowers have submitted that they had made some repayment of the loans taken by them and that some of the repayment transactions have been incorrectly mentioned as onward lending. However, I note that the said borrowers have failed to provide any evidence to the effect that the said onward lending were repayment transactions or that some amount was repaid by them. In absence of any evidence to the contrary, I am of the view that the borrowers indulged in onward lending and failed to repay the amounts due from them, by design. In addition, that still does not provide any legitimate reason as to why RHFL chose to lend to such borrowers in the first place, seemingly with their eyes shut to a most glaring set of red flags.

54.5.17 Noticee No. 23 has contended that the term PILE is not defined or referred to anywhere in the SEBI Act or any of the Regulations promulgated thereunder and therefore, Noticee cannot be made liable on basis of such alleged relationships that are neither recognized or provided for in the law. I note that the term PILE has been used by forensic auditor appointed by Bank of Baroda for the purposes of its reports. On perusal of the Investigation Report, I note that SEBI has conducted its investigation independently to establish connection between the Noticees without placing any reliance on the terms used by the said forensic auditor. Therefore, the submission of Noticee No. 23 with reference to PILE cannot be accepted.

54.5.18 I note that reliance placed by Noticees on the Hon'ble SAT Order in the matter of HB Stockholdings is misplaced. I note that the said case involved allegations of synchronization of trades and/ or creation of artificial volumes by group of persons. SAT observed that in the facts of that case, the few instances of common address or commonality of promoters between 2 or more companies would not by themselves be sufficient to prove the allegation of connivance between the parties concerned. However, in the present case, the close connection between borrowers is demonstrable by the sheer number of entities which are connected using some commonality or the other. For instance, as can be seen in the Interim Order, 8 addresses are shared amongst 41 entities (*one address often being shared by around 8 entities*). Similarly, (i) three email IDs are shared amongst 13 entities (*one email address being seen to be shared amongst 7 entities*), (ii) one director was seen to be director in 10 entities (*5 GPCL borrowers and 5 onward borrowers*); and, (iii) 4 persons who were directors across 9 borrowers were also employees/former employees in ADA group companies. Further, it is observed that as of the beginning of FY 2018-19, most of the GPCL borrowers had cross shareholding amongst each other as highlighted in the Table- 24 above, some even holding almost 100% of the shareholding in the other entity.

54.5.19 Since some of the borrowers contended that they were independent entities controlled by their own management, the publicly available data of the shareholding of GPCL borrowers and onward borrowers for the year ending March 31, 2019 was looked into in order to determine the extent of the relationship between the borrowers and the promoter group. The brief findings of this analysis are as follows:

54.5.19.1 Almost all of the GPCL borrowers and onward borrowers had “box-structured shareholding” i.e. there was cross shareholding amongst each other.

54.5.19.2 In majority of the GPCL borrowers and Onward Borrowers, behind multiple layers of companies once the cross shareholdings were eliminated, Noticee No. 2 and his family members were seen to be the natural persons remaining.

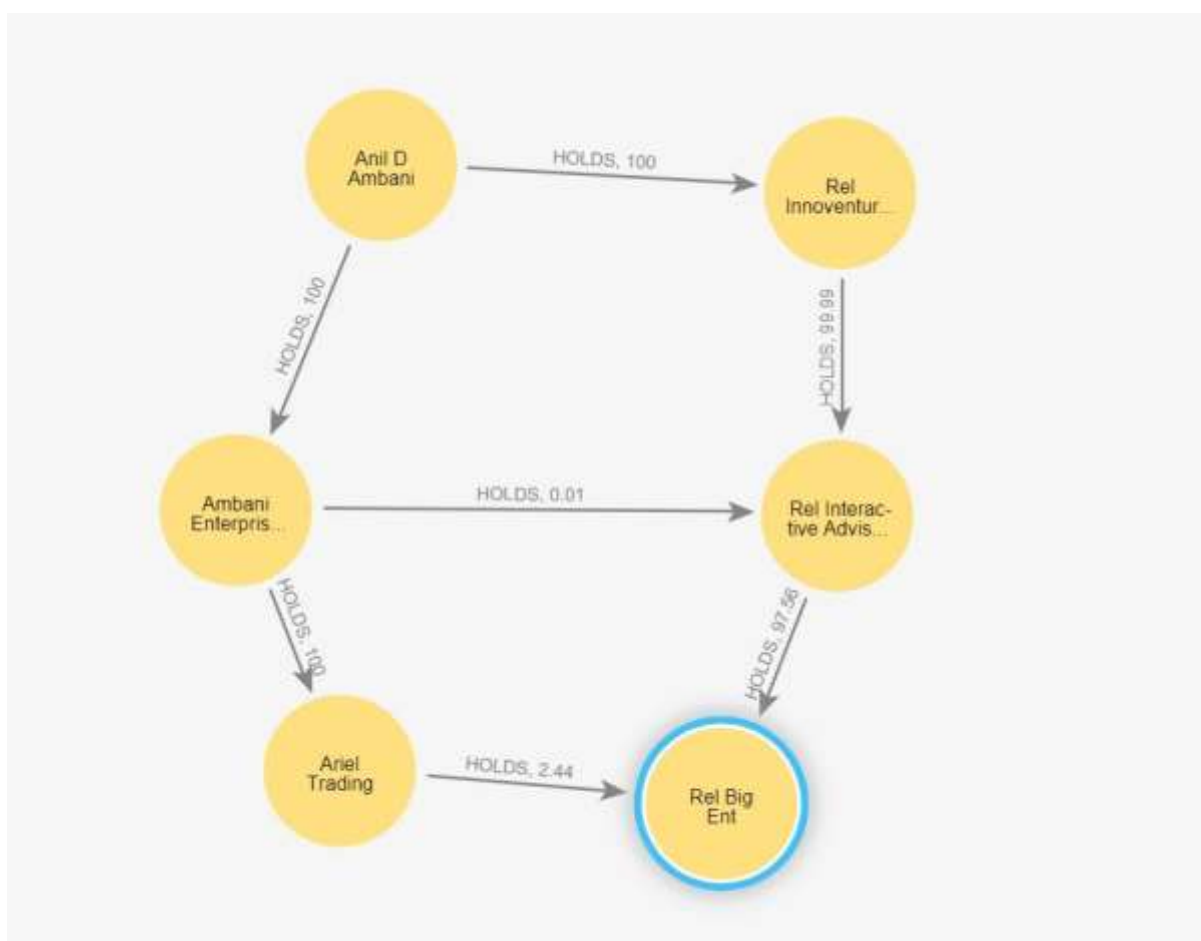
54.5.19.3 The shareholding of these companies is so intertwined and labyrinthine that it is not immediately possible to ascertain the ultimate beneficiary of these companies even though there are instances where some of the shareholding is held by Anil D. Ambani and his family members.

54.5.19.4 There were instances wherein the shareholding of GPCL borrowers was completely changed i.e. shareholders for year ending March 31, 2018 exited the companies and for the year ending March 31, 2019, all shareholders were new.

54.5.19.5 To illustrate –

- (i) In the case of Reliance Big Entertainment Private Limited (Noticee No. 27), I note that Noticee No. 2 was the sole natural person controlling Noticee No. 27 behind a web of companies. The pictorial representation of shareholding pattern of Noticee No. 27 is reproduced below:

Image 17



- (ii) In case of Tulip Advisors Private Limited (Noticee No. 17), I note that the shareholding was held amongst each other by three entities i.e. Space Trade Enterprises Private Limited, Skyline Global Trade Private Limited and Vishwas Cargo Impex Private Limited. From the shareholding of Space Trade and Skyline, it was observed that they held each other's shares as reproduced below. Further, upon perusal of website of Ministry of Corporate Affairs (<https://www.mca.gov.in/content/mca/global/en/mca/master-data/MDS.html>) , it was observed that Vishwas Cargo Impex was struck off (screenshot at Image 19). Therefore, it appears that there was no beneficiary of these Tulip Advisors as all the shareholdings were collapsing into each other.

Image 18

Shareholding of Tulip Advisors

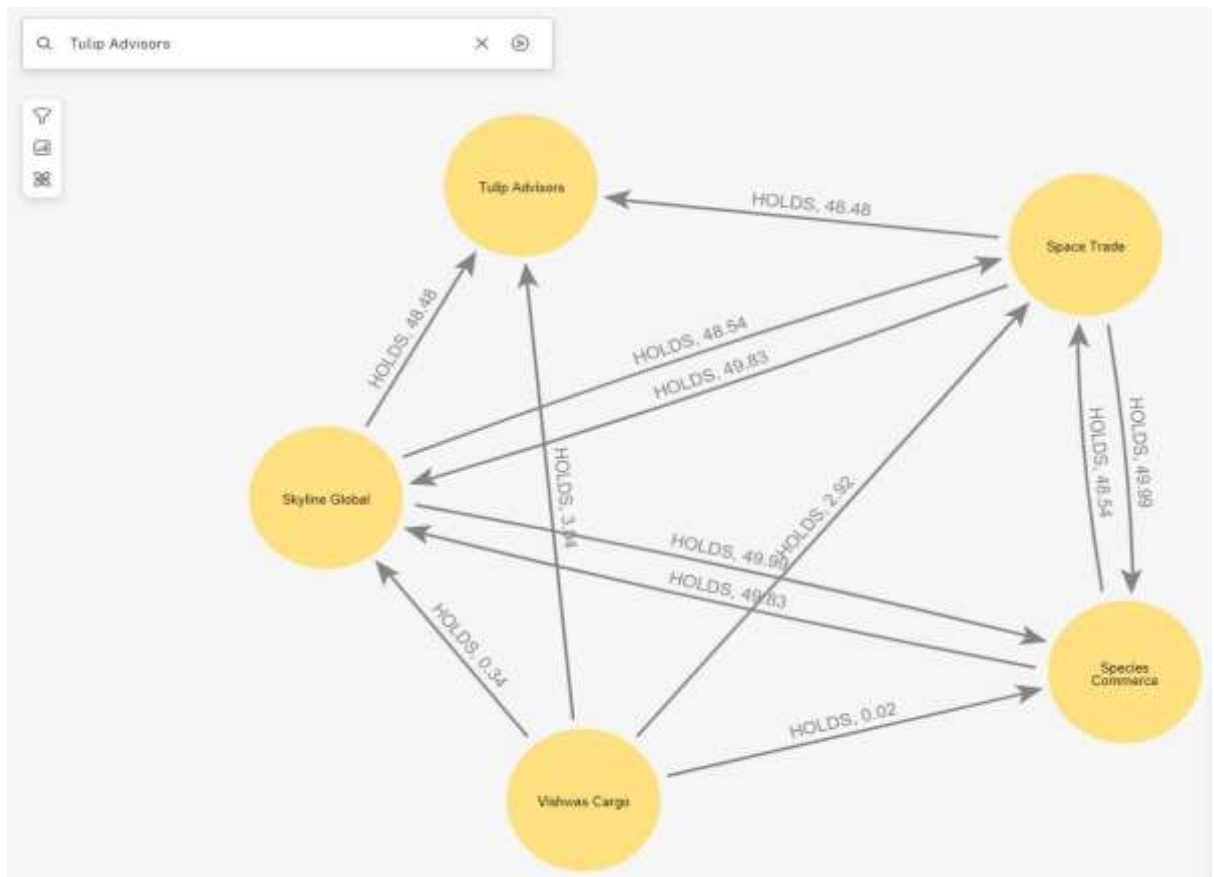


Image 19

Status of Vishwas Cargo Impex as per MCA website

Home > MCA Services > Master Data > Master Data Services V3

U52502MH2019PTC05283

☒ Company/LLP ☐ Directors/ Designated partners

☐ Advanced Search

Showing results 1 of 1 Page shows 10

S.No.	Company/LLP name	CIN/FCRN/LLPIN/FLPIN	State	Status
1	VISHWAS CARGO IMPEX PRIVATE LIMITED	U52502MH2019PTC05283	Maharashtra	Strike Off

Showing results 1 of 1 Previous Page 1 Next

(iii) Some other similar illustrations are pictographically recorded and appended to this Order as **Annexure B1-B3**. Such convoluted structuring of borrower companies has only furthered their ability to implement fraudulent schemes to the detriment of investors and the securities market.

54.5.20 In light of all of the above, I find that the NOticees, the borrowers and Reliance ADA Group are closely connected with each other. This also possibly explains the motivation behind the nature and manner of disbursement of the impugned GPC 'Loans'.

54.6 GPC Loans written off/Classified as NPA

54.6.1 GPC Loans turn NPAs/ Written Off

- (i) As per the information submitted by RHFL, it had, during the investigation period (FY 2018-19), disbursed 97 GPC loans amounting to INR 8470.65 Crore to 45 GPCL Borrowers entities.

- (ii) The status of these loans as on November 30, 2020 as submitted by RHFL was as under:

Table – 31 : GPC loan status as on November 30, 2020

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

- (iii) Further, the Company vide its letter dated November 24, 2021, provided updated information about the loan accounts, which is tabulated herein below:

Table – 32 : GPCL Classification as on September 30, 2021

Classification	Number of Loan applications	Amount of Disbursement (INR In Crore)	No. of Unique GPCL Borrowers	Amount Outstanding as on September 30, 2021 (INR Cr.)
NPA	95	8,318.35	43	6,779.01
Write-off	2	152.30	2	152.30
Total	97	8,470.65	45	6,931.31

- (iv) As per the information available on record, the GPC Loans for amounts of INR 4383.62 Crore granted to Noticee Nos. 6-19 were classified as NPA as on September 30, 2021.

- (v) A conjoint reading of the aforesaid two tables would indicate the following:

- (a) An outstanding amount of INR 2,920.50 Crore was considered as “Standard” in the books of accounts of RHFL, as on November 30, 2020 (Ref. Table -31 above).

(b) Out of the total loans, two accounts for two entities have been written off which amounted to INR 152.30 Crore (Table - 31).

(c) Further, out of total 97 GPC Loans, 27 unique GPCL Borrower entities were given an amount of INR 5,165.05 Crore under 63 different loan applications. As on November 30, 2020, out of the said amount of INR 5,165.05 Crore, an amount of INR 3,858.51 Crore was still outstanding as due towards RHFL and due to the said fact, such 63 accounts (pertaining to amount of INR 5,165.05 Crore) were declared as NPA. (Ref. Table – 31 above).

(d) However, after passage of 10 months (i.e. as on September 30, 2021), RHFL has not recovered any further amount either from the loans which were earlier (as on November 30, 2020) stated to be Standard (INR 2,920.50 Crore) or from the outstanding amounts from the accounts declared as NPA (INR 3,858.51 Crore). Eventually, all the 95 Accounts (2 accounts out of 97 accounts were already written off from the books of RHFL), containing a total amount of INR 8,318.35 Crore (Ref. Table - 32 above) have been declared as NPA as on September 30, 2021.

(e) The said fact shows that RHFL has not recovered any amount from such GPCL borrower entities since November, 2020 and the total outstanding amount which was pending to be received by RHFL was INR 6,931.31 Crore. (a sum total of Standard, NPA and write off amount as reflected under Table - 31).

54.6.2 **Façade of Loan repayment**

- (i) GPCL borrower entities have contended that some of the amount onward lent by them has been repaid by onward borrowers by issuing 0% Unsecured Optionally Convertible Debentures (OCDs). The details of such OCDs have been tabulated herein below:

**Table - 33 : Details of Loans onward lent converted to 0% Unsecured
Optionally Convertible Debentures (OCDs):**

S. No.	Lending GPCL Borrower Company (Allottees)	Onward Borrower Company	Loan Amount repaid by borrower Company through OCDs	Date of Allotment	Details of Allotment and No. of Securities allotted
1	1) Mohanbir Hi-Tech Build Private Limited 2) Phi Management Solutions Private Limited	Indian Agri Services Private Ltd	1) 14,54,82,000 2) 84,55,83,000 Total: 99.11 Crore	1 st April 2019	Rs. 1000 per security: 1) 1,45,482 2) 8,45,583 Total: 9.91 lakh OCDs
2	1) Medybiz Private Limited	Adhar Project management & Consultancy Pvt Ltd	1) 53,28,00,000 Total: 53.28 Crore	1 st April 2019	Rs. 1000 per security: 1) 5,32,800 Total: 5.32 lakh OCDs
3	1) Adhar Project management & Consultancy Pvt Ltd 2) Gamesa Investment Management Pvt Ltd 3) Medybiz Private Limited 4) Mohanbir Hi-Tech Build Private Limited 5) Phi Management Solutions Private Limited 6) Reliance Alpha Services Private Limited 7) Reliance Venture Asset Management Private Limited	Reliance Unicorn Enterprises Pvt Ltd	1) 8,35,79,000 2) 1,10,80,00,000 3) 78,66,18,000 4) 1,59,59,00,000 5) 12,15,35,000 6) 3,73,60,00,000 7) 64,33,09,000 Total: 807.49 Crore	1 st April 2019	Rs. 1000 per security: 1) 83,579 2) 11,08,000 3) 7,86,618 4) 15,95,900 5) 1,21,535 6) 37,36,000 7) 6,43,309 Total: 80.75 lakh OCDs
4	1) Mohanbir Hi-Tech Build Private Limited 2) Phi Management Solutions Private Limited	Gamesa Investment Management Pvt Ltd	1) 13,42,30,000 2) 1,05,50,47,000 Total: 118.92 Crore	1 st April 2019	Rs. 1000 per security: 3) 1,34,230 4) 10,55,047 Total: 11.89 lakh OCDs
			Rs.1078.80 Crore		

Source: Attachments provided by respective Companies in Form PAS-3

- (ii) It may seem like the GPCL borrowers have recovered the amount lent by them and onward lenders had discharged their loan liabilities in their books of accounts by issuance of such OCDs at the end of financial year to such lenders i.e. GPCL Borrower entities. However, it appears that by issuance of such OCDs, an accounting fiction has been created which shows discharge of dues towards the loans received by such onward borrower entities. In addition, none of this resulted in the GPCL borrowers themselves repaying the loans taken from RHFL – those funds remained lost to RHFL forever.

54.6.3 Guarantees Furnished by GPCL Borrowers and Onward Borrowers

- (i) RHFL has submitted that on account of market scenario in 2018-19, it had asked borrowers to furnish the additional cover and security for their loans and it was in this context that guarantees were furnished by borrowers. On the face of it, it would seem like a good practice on behalf of a lender to ensure safety of its credit facilities. Note however, that such guarantees were obtained well after the GPC Loans were disbursed. As per information furnished by RHFL, it had secured an aggregate Corporate Guarantee of INR 2060.72 crore in respect of the following loans:

Table - 34

Date of Guarantee Execution	Name of GPCL Borrower	Lender Name	Guarantor Name	Loan Amount (INR In Crore)
18/09/2019	Reliance Cleangen Ltd.	Reliance Home Finance Ltd.	Reliance Power Ltd.	40.48
08/08/2019	Jayamkondam Power Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	104.00
	Species Commerce	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	71.00

	and Trade Pvt. Ltd.			
	Species Commerce and Trade Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	Tulip Advisors Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	60.00
	Tulip Advisors Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	Tulip Advisors Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	55.00
	Aashish Power Plant Equipment Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Solar Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Solar Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	RPL Solar Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	35.00
	RPL Star Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Star Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	RPL Star Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	RPL Surya Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	100.00
	RPL Surya Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	64.00
	RPL Sunlight Power Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	47.00
	Hirma Power Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	Hirma Power Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	175.00
	Worldcom Solutions Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	50.00
	Skyline Global Trade Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	71.00
	Skyline Global Trade Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	20.00

	Space Trade Enterprises Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	136.61
	Vinayak Ventures Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	11.13
	Vinayak Ventures Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	210.00
18/03/2019	Crest Logistics and Engineers Pvt. Ltd.	Reliance Home Finance Ltd.	Reliance Infrastructure Ltd.	160.50
Total				2,060.72

- (ii) The Noticees' claims that the decision to grant GPC Loans was a commercial decision and that the borrowers had no relation to RHFL stands controverted by the fact that the companies of Reliance ADA Group had come forward to offer guarantees of more than INR 2,000 Crore for borrowers with weak financials and clear inability to service such loans.
- (iii) Guarantees are given to assure the lender that it will get its dues even in case of default by borrower. As noted above, the financials and credit quality of the borrowers does not render them eligible to even seek loans, let alone avail a guarantee from any person. However, in this instance, by giving such guarantees to borrowers, Reliance ADA group companies have post facto taken responsibility for the repayment of large amounts of debt if the said borrowers default on the loans. These companies have taken such a huge exposure for borrowers who, as noted earlier in this Order, were never in a position to service their debts in view of their financials and weak credit quality. Further, I note that most of the borrowers have defaulted in their payments and their accounts have been declared NPAs. If these guarantees were given with a bonafide reason to service the debts in case of default, Noticee No. 1 and its management

should have and would have taken steps to invoke the guarantee and recover its dues. However, as per information available on records, the said guarantees were not invoked and instead such accounts were declared as NPAs. I find that the non-invocation of such corporate guarantees and declaring the loans as NPAs leads to an inference that such guarantees were provided by the promoter group companies only to hoodwink the shareholders at large as well as the relevant authorities and regulators and to give them a false sense of assurance that the GPCLs are well secured by guarantees.

- (iv) Noticee No. 4 submitted that upon becoming aware of the onward lending activities of borrowers, guarantees were obtained from listed companies. However, as observed above, such guarantees were only a post facto smokescreen to present the status of loan as secured. They do not explain why such large loans were made to companies with weak financials and credit quality in the first place, other than as part of a fraudulent artifice and scheme to divert money from a listed company to entities connected to the promoter. Such guarantees were taken from Reliance ADA group companies. If such guarantees were genuine, Noticee would have taken steps for recovery of loan amount by invoking such guarantees. However, instead of taking steps for the same, I note that the loan accounts of borrowers were declared NPA when they defaulted in payments and as per information available on record, the guarantees have not been invoked even after such defaults. I find that creation of such *ex-post facto* guarantees appears to have been only a formality used to deceptively assuage any concerns with respect to the loan defaults.
- (v) Similarly, Reliance Infrastructure Limited has also executed guarantees on behalf of certain Onward Borrowing entities against the loans extended by GPCL Borrower entities of RHFL, as indicated below:

Table - 35

Date of Guarantee Execution	Name of Onward Borrower	Lender Name	Guarantor Name	Loan Amount (INR In Crore)
06/09/2019	Reliance Business Broadcast News Holdings Limited	Aadhar Property Consultancy Private Limited	Reliance Infrastructure Limited	189.20
06/09/2019	Reliance Business Broadcast News Holdings Limited	Aadhar Real Estate Consultancy Private Limited	Reliance Infrastructure Limited	202.40
06/09/2019	Reliance Business Broadcast News Holdings Limited	Nationwide Communication Private Limited	Reliance Infrastructure Limited	175
20/03/2019	Crest Logistics and Engineers Private Limited	Azalia Distribution Private Limited	Reliance Infrastructure Limited	175
06/09/2019	Reliance Unicorn Enterprises Private Limited	Mohanbir Hitech Build Private Limited	Reliance Infrastructure Limited	168
Total				909.60

(vi) Some of the Noticees have submitted that they had availed loans for taking advantage of arbitrage in interest amounts. However, as observed above, providing financial services was not the business of these GPCL borrowers. In any case, they do not explain why RHFL thought it fit to make loans to these non-descript borrowers in the first place, despite their obviously weak financials and credit quality, other than as a fraudulent artifice and scheme to divert money from a listed entity to entities related to the promoter. In this regard, some of the transactions are highlighted for reference:

(a) RHFL had received INR 300 Crore on September 10, 2018 in its HDFC Bank Account No. 00600310022347 from ICICI Bank. On the same day, out of the said amount, INR 150 Crore was transferred to Medybiz Private Limited (Noticee no. 15) and INR 80 Crore to Mohanbir Hi Tech Build Private Limited (Noticee no. 18). The said

two entities transferred the amounts so received to RCL (Noticee No. 28) on the same day itself.

(b) RHFL extended GPCL of INR 20 Crore on November 05, 2018 to Indian Agri Services Private Limited (Noticee no. 7) which extended the said amount to Phi Management Solutions Pvt. Ltd (Noticee no. 8). On March 18, 2019, an amount of INR 25 Crore was extended by RHFL to Mohanbir HI Tech Build Private Limited (Noticee no. 18). The said Noticee no. 18 transferred that amount of INR 25 Crore to Gamesa Investment Management Private Limited (Noticee no. 14). The ultimate recipients of the funds viz., Noticee no. 8 and Noticee no. 14 transferred the said amounts back to RHFL, i.e., the Company from where such amounts had originated. The chain of events governing such transactions indicates that RHFL, in connivance with the GPCL borrower entities, was also involved in ever-greening of some of its lending business.

- (vii) It has been contended by RHFL and its KMPs that the factum of borrowers' onward lending transactions as well as the fact that the end use of borrowings from company included borrowings or repayment of financial obligations to some of the group companies was stated in the Annual Report. The relevant passage from the Annual Report for FY18-19 is quoted as under: *"During the Financial Year, the Company had advanced loans under 'General Purpose Corporate Loan' product to certain bodies corporate including some of the group companies. All the lending transactions undertaken by the Company are in the ordinary course of business, the terms of which are at arms' length basis and the same do not constitute transactions with related parties. However, the Company's borrowers in some cases have undertaken onward lending transactions and it is noticed that the end use of the borrowings from the Company included borrowings by or repayment of financial obligations to some of the group companies."* (emphasis supplied)

(viii) I note that the above so-called “disclosure” in the Annual Report is conspicuous for what it fails to disclose, and for being blatantly false and misleading. It certainly does not record what the RHFL and the Noticee KMPs of RHFL must have been aware of as argued earlier; that well over INR 9,000 crores of GPCL loans (which comprised around half of the total assets of RHFL) had been made to non-descript borrowers who had no demonstrable financial ability to repay any of it; that over INR 5,000 crores of such loans were to Noticees numbers 6-19; that nothing could logically explain or justify the extension of these loans to entities of such obviously poor credit quality, other than there being a wanton artifice to divert funds away from RHFL to entities connected to the promoter; that given the obvious credit weaknesses of the GPC Loan borrowers, the actual probability of default by such borrowers and hence the expected credit losses was considerably higher than acknowledged in the financial statements; that such egregious lending continued in defiance of the express instruction of the RHFL Board on February 11, 2019 to desist from any further GPC Loans. In effect, this so-called ‘disclosure’ is a fig leaf that suggests ‘some’ GPC Loan proceeds may have gone to group companies, but then the “disclosure” then reassures its stakeholders that this is not a matter of concern, since “All the lending transactions undertaken by the Company are in the ordinary course of business, the terms of which are at arms’ length basis”. In reality, there was nothing ordinary and nothing arms’ length about these GPC Loans. No right thinking financial institution would have even considered independently making such loans. In effect, by preponderance of probability, RHFL and its KMPs were well aware that half of the assets of RHFL had been diverted, and that there was a very high probability that much of it – if not all of it - would not come back. As such, the assurance that this so-called “disclosure” contains can only be labelled as patently false and misleading.

(ix) Noticee No. 2 has submitted that the process of giving guarantees was an operational matter and the proposal for issuing guarantees was not placed

before the Board of RInfra and RPower. I note from the perusal of Annual Reports of RInfra and RPower that Noticee No. 2 was Chairman of Board of Directors of both these companies during the time when guarantees were given by them to RHFL or GPCL borrowers. Further, in the Annual Report of RInfra, it is stated at page-63 that corporate guarantees were provided to RHFL and at page-116 it is stated that corporate guarantees were provided to enterprises wherein Anil D. Ambani had significant influence. Similarly, in the Annual Report of RPower pertaining to FY 2019-20, it is stated at page-164 thereof that Anil D. Ambani had significant influence over RHFL. Therefore, in view of the positions held by Anil D. Ambani in RHFL, RInfra and RPower, the loans sanctioned by Anil D. Ambani to GPCL borrowers as discussed in this Order and the weak financials of the borrowers for whom guarantees were provided, it can be reasonably inferred that Noticee No. 2 played a role in securing such post-facto guarantees on behalf of entities who otherwise would not have been eligible for sanctioning of loan.

54.7 Whether the Noticees can be said to have violated provisions of the PFUTP Regulations?

At the core, as has been discussed in the preceding paragraphs, the following acts of the Noticees are under consideration:

- (i) In FY18-19, Noticees Nos. 1 to 5 were involved in approval and disbursement of sizeable amount of GPC Loans running into several thousands of crores of Rupees, with minimal security or collateral, to patently unworthy borrowers that were connected in one way or the other to the promoter. Several of such 'loans' were approved deviating from basic lending due diligence norms, and continued to be disbursed in defiance of explicit RHFL Board instructions. Noticee Nos. 6 to 28 (*all of them being companies that were linked to the promoter, directly or indirectly*) were the

recipients of such funds, either as primary GPCL borrowers themselves, or as secondary recipients of funds from the GPCL borrowers. There was no discernable attempt from any of the Noticees to ensure that all such diverted funds were appropriately returned to RHFL. Even the few known instances of post-facto guarantees issued by the promoter group companies for loans availed by the connected GPCL borrowers, were never invoked.

- (ii) Eventually, much of these GPC Loans had to be recognized as Non-Performing Assets or written-off assets by RHFL. The resulting losses to RHFL led to the ruin of RHFL and its shareholders.
- (iii) Noticee Nos. 1 - 5 (being the company, its promoter and key management) concealed the facts about the poor quality of the GLPC Loans, and gave false certification about the financial health of RHFL in FY18-19, thereby misleading all of RHFL's investors and other stakeholders.
- (iv) The only reasonable explanation, by preponderance of probability, that can explain and tie the above series of events together is that this was a nefarious device executed by all the Noticees to siphon off funds from a listed company RHFL, to entities linked to the promoter, while concealing the hollowing out of the company from its investors and stakeholders.
- (v) Noticee No. 2 was not a member of the Board of RHFL or a KMP of RHFL. Despite the same, by preponderance of probability, he can be said to be the prime orchestrator of the scheme considering that the diversion of monies were to entities that were directly or indirectly linked to him or the ADA group. His own direct role in this scheme is clear from the approvals granted to several GPC loans disregarding the multiple deviations recorded in the CAMs. He has in his replies sought to distance himself from the aforesaid diversion by claiming that the company was

professionally run and that he had no involvement in the same and that loans, if any, were only 'confirmed' by him in the capacity of Chairman of the holding company. However, the facts and circumstances brought out above run contrary to his claims. Noticee No. 2 (Anil D. Ambani) in his replies has chosen to contest the specific expression "de facto controlling influence" used in the Interim Order, stating that no such expression exists in law. It appears that this expression was used not in the context of any specific provision of law but to summarise the allegation that the scheme was in fact orchestrated at the behest of Noticee No. 2.

- (vi) Thus, the allegations in this case are two-pronged - the Noticees have together contrived a scheme to –
 - (a) divert substantial funds of the Company to the detriment of the company and its stakeholders; and,
 - (b) conceal such acts of diversion from the shareholders of the Company as well as public at large through manipulation of financials and books of accounts, and through egregiously misleading and false statements and assurances.
- (vii) The Interim Order cum Show Cause notice has invoked section 12A(a), (b) and (c) of the SEBI Act, 1992; and, regulation 3(b)(c) and (d) and regulation 4(2)(f)(k) and (r) of the SEBI (PFUTP) Regulations, 2003 in the context of the allegations made against the Noticees.
- (viii) Section 12A (a)-(c) as well as regulation 3(b), (c) and (d) of the PFUTP Regulations prohibits persons from directly or indirectly using or employing any manipulative or deceptive device in connection with dealing in securities. Regulation 4(1) prohibits persons from indulging in manipulative, fraudulent or unfair trade practice.
- (ix) Noticees have, *inter alia*, contended that the necessary condition to demonstrate violation of Regulation 3 of PFUTP Regulations or Section

12A of SEBI Act is that manipulative or deceptive device, practice, scheme was in connection with issue, purchase, sale or dealing in or issue of securities. According to them the SCN has not made any allegations or averred how the alleged scheme/ device/ artifice was with a view to manipulate the price of securities.

(x) I do not find these arguments to be tenable. The Interim Order cum SCN infact brought out the role of all Noticees in perpetrating the fraudulent scheme. Regulation 3 (b), (c) and (d) of PFUTP Regulations mandate that no person shall “*directly or indirectly*”, employ or engage in any act or device or schemes “*in connection with*”, *inter alia*, purchase, sale, or dealing in securities. Clearly, this does not restrict the applicability of these clauses to those that are directly dealing in these securities alone. Also, the definition of “*dealing in securities*” as per regulation 2(1)(b) of the PFUTP Regulations, with effect from February 1, 2019, explicitly includes “*such acts which may be knowingly designed to influence the decision of investors in securities*” and “*any act of providing assistance to carry out the aforementioned acts.*” It is therefore clear that these provisions are not only applicable to those entities that have directly dealt in securities, but also to entities undertaking any act designed to influence the decision of investors in securities, and to those providing assistance to the fraudulent scheme. Therefore, even though GPCL borrowers, onward borrowers, or other Noticees may not have directly dealt in the securities of RHFL, the detailed discussion in preceding paragraphs of this Order make it amply clear that all the Noticees have played different roles in the elaborate and nefarious device to siphon out funds from RHFL, while concealing such acts from investors thereby lulling them into believing that the financial health of RHFL was far better than it actually was.

(xi) I further note that to prove a violation of Section 12A of the SEBI Act, or Regulation 3(b), (c) and (d) of PFUTP, the test is to determine whether the

device or scheme would operate as a fraud or deceit on investors dealing in such securities. The scheme of fraudulently diverting large quantum of funds from a listed entity without disclosure, by its very nature, is bound to induce investors (*who are oblivious to the true state of affairs of the company*) to continue to deal in the company's securities. Inevitably, this would result in artificially inflated prices because of such concealment of the ongoing fraudulent siphoning of funds.

(xii) The Explanation to Regulation 4(1) of the PFUTP Regulations, which was inserted on October 19, 2020, as a clarification (*i.e. something which was earlier implicit has now been made explicit by adding the aforesaid Explanation*)¹⁸ also effectively reiterates the prohibitions stated in the Section 12A of the SEBI Act and regulation 3 of the PFUTP Regulations. The Explanation which was inserted "for the removal of doubts" clarifies that diversion, siphoning off of assets etc., concealment of such acts or manipulation of financial statements that would directly or indirectly manipulate price of the company's securities would be deemed to have always been considered as manipulative, fraudulent or unfair trade practice in the securities market.

(xiii) Regulation 4(2) of PFUTP Regulations lists specific instances wherein dealing in securities are deemed to be manipulative, fraudulent or unfair. In the present matter, the acts of Noticee Nos. 1- 5 in misreporting of RHFL financials and its books of accounts for FY18-19, when they were clearly aware of the false nature of the financial reports, have resulted in violation of Regulation 4(2)(f), (k) and (r) of PFUTP Regulations, in addition to the

¹⁸ In this regard, I refer to the Report of Committee on Fair Market Conduct¹⁸ which examined the provisions of PFUTP Regulations and observed at para 1.3 at page-24 that "*In order to **provide more clarity** that the **conduct/ practices relate to entire securities market**, as well as for consistency with Section 11(2)(e) of the SEBI Act, including **activities such as** giving advice, unauthorized trading, mis-selling, **diversion of funds** etc., which may impact the eco-system of securities market, it would be prudent that the regulation refers to the securities market rather than just securities.*" (emphasis supplied).

earlier mentioned provisions of securities law. The Interim Order cum SCN has alleged violation of the aforesaid provisions of Regulation 4(2) against Noticee Nos. 6-28 as well. However, considering that these provisions deal with dissemination/ publication of misleading information, the same cannot be attributed to Noticee Nos. 6-28 which were corporate borrowers and were not in-charge of the affairs of RHFL directly or indirectly.

(xiv) On the basis of the discussions in this Order and on the basis of preponderance of probability, I find Noticees to be liable for having violated Section 12A of the SEBI Act, and Regulation 3(b), (c) and (d) and Regulation 4(1) of the SEBI (Prohibition of Fraudulent Practices relating to Securities Market) Regulations, 2003. Also, I find Noticee Nos. 1 to 5 liable for having violated Regulation 4(2)(f), (k) and (r) of the SEBI (PFUTP) Regulations, 2003.

55. Whether Noticees 1, 3-5 can be said to have violated the provisions of LODR Regulations?

55.1 Non-Disclosure of RHFL Board's Directions in its Meeting held on February 11, 2019

As noted earlier in this Order, the Board of RHFL had on February 11, 2019 given express instructions to its management that GPCLs do not fall under the policy criteria of the Company and loans shall be given only for retail home loan portfolio activities. Further, management was directed to present a plan to fulfil the NHB requirements of continuing the license as a Housing Finance Company and ensure that the home loan portfolio would be more than 50% by March 31, 2019. Also, Statutory as well as Internal Auditors were directed to submit their reports by March 28, 2019 after checking the documentation of all GPC Loans for compliance with company policies and to verify adequacy of security. These directions were material in nature and were required to be disclosed on the Exchange platform in accordance with Regulation 4(1)(d), (g), (h), 4(2)(b) & (e), 30(1), 30(7) and 51(1) of

the LODR Regulations, 2015. However, the Company failed to disclose the said direction of the Board on the Exchange platform in violation of the aforesaid provisions of LODR Regulations. Noticee Nos. 3-5 being KMPs are liable for this failure in disclosure of the Board's directions.

55.2 **Misrepresentation of Financials**

- (i) As per the Annual Report of RHFL for 2018-19, GPC Loans were shown under the head 'Loans-Corporate Loans' on the asset side of the Balance Sheet and the relevant extracts of the same are provided below:

Table – 36
Relevant amounts of the Loans, security and ECL (in INR Crore) as disclosed in the Annual Report of RHFL

Particular	FY 16-17	FY 17-18	FY 18-19
Gross Loans	9952.47	14639.73	16529.47
Net Loans	9785.43	14410.45	16251.09
Impairment Loss Allowance (Expected Credit Loss) (ECL)	(167.04)	(229.28)	(278.38)
(Loans) Secured by Tangible and intangible Assets	9892.47	14620.69	16510.69

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

- (ii) In Note No. 2 below the aforesaid information, as described earlier, it is stated that *"During the Financial Year, the Company had advanced loans under 'General Purpose Corporate Loan' product to certain bodies corporate including some of the group companies. All the lending transactions undertaken by the Company are in the ordinary course of business, the terms*

of which are at arms' length basis and the same do not constitute transactions with related parties. However, the Company's borrowers in some cases have undertaken onward lending transactions and it is noticed that the end use of the borrowings from the Company included borrowings by or repayment of financial obligations to some of the group companies"

- (iii) In Note No. 3 below the aforesaid information, it is stated that secured loans and other credit facilities given to customers are secured/ partly secured *inter alia* by company guarantees and charge on current assets.
- (iv) As argued earlier, even though the aforesaid Notes claim to disclose that GPCLs were advanced to group companies, there is no mention of, *inter alia*, the significant quantum of such GPC Loans involved that amounted to around half the assets of RHFL, the significant deviations and hence abysmal due diligence recorded in CAMs while disbursing such large loans, the miniscule current assets of borrowers against which loans amounting to several hundred crore rupees were disbursed, the extraordinarily weak financials of the borrowers, disbursement of loans in breach of directives of RHFL Board, and the approvals given by Noticee No. 2 in his capacity as Chairman of Reliance ADA Group. I find that the aforesaid Notes by themselves do not serve the purpose of disseminating complete and correct financial information to the shareholders and investors. Instead, the notes provide assurances that “...*the lending transactions undertaken by the Company are in the ordinary course of business, the terms of which are at arms' length basis*” and that “*credit facilities given to customers are secured/ partly secured*”. As argued earlier, RHFL and its KMPs were well aware that half of the assets of RHFL had been diverted, and that there was a very high probability that much of it – if not all of it - would not come back. As such, the assurances in these so-called “disclosures” and notes to account can only be labelled as patently false and misleading.

- (v) RHFL in its Notes to Financial Statements in Annual report for year 2018-19¹⁹, in its accounting policy for recognizing expected credit loss (ECL) for the financial assets (Loans) has stated that:

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

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

.....

‘Stage 1’ includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (‘ECL’) are recognised.

.....

‘Stage 3’ includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognised.

Staging can be done basis qualitative and quantitative criteria with DPD as a backstop arrangement.

.....

ECL = Probability of default (PD) x Exposure at default (EAD) x Loss given default (LGD)

This model defines these parameters based on historical data and suitable regulatory assumptions.

- Probability of default: It defines the probability of a borrower to default in its commitment over a time of the asset. In IND AS 109 context, PD is calculated for two time horizon. 12 Months PD and life time PD.”*

Based on the above policy, RHFL has disclosed that the total expected credit loss (**ECL**) for their entire loans (including GPCL loans) given during 2018-19,

¹⁹ Refer pages 96-97 of Annual Report of RHFL for the year 2018-19

of INR 16,529.47 Crore, is INR 278.38 Crore only. Further, RHFL have disclosed GPCL loans in category of other loans²⁰ of INR 8015.89 Crore as on March 31, 2019, while calculating the expected credit loss. RHFL has made NPA provision for non-housing loan assets of RHFL only to the extent of INR 78.84 crore²¹ for FY 2018-19. As per material available on record, subsequently, the entire outstanding of the GPCL lending of INR 6931.31 Crore as on September 30, 2021 has been classified as NPA.

(vi) I have perused the provisions of Ind AS 109 the objective of which is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The relevant extracts of Ind AS 109 are reproduced below:

“Write-off

5.4.4 An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

5.5. Impairment

Recognition of expected credit loss

5.5.1. An entity shall recognise a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).

5.5.3. Subject to paragraphs 5.5.13–5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on

²⁰ Page 99, point no. 6 of the Annual Report of RHFL for the year 2018-19

²¹ Page 113 of the Annual Report of RHFL for the year 2018-19

that financial instrument has increased significantly since initial recognition.

Measurement of expected credit losses

5.5.17 An entity shall measure expected credit losses of a financial instrument in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(b) the time value of money; and

(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

5.5.18 When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

5.5.19 The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.”

(vii) I note that Ind AS 109 provides that ECL shall be measured in a manner that *inter alia* reflects unbiased and probability weighed amount and reasonable and supportable information that is available. As already observed in this Order, the CAMs for GPC Loans recorded waiver of Probability of Default as one of the deviations. I note that tenure of GPC Loans was for a period of 12 months. RHFL has stated in its Annual Report that Stage 1 of Ind AS 109 is *inter alia* applicable on financial instruments which have low credit risk at the reporting date and Stage 3 of Ind AS 109 includes financial assets that have objective evidence of impairment at the reporting date and for such assets lifetime ECL is recognised.

- (viii) In this connection, I note that in several of the large GPC Loans made to dubious entities with weak financials and of obviously low credit quality, the relevant CAMs had recorded a deviation, *inter alia*, from credit rating of the borrowing customer, and of computing their Probability of Default (PD). Given the blatantly obvious credit weaknesses and absence of reasonable collateral even at the time of disbursal, any rational exercise of assigning a borrower credit rating and computation of PD for such GPC Loans would have led to the inevitable conclusion that a significant proportion of the loan was at risk of default. In other words, had these basic requirements for rating borrowers and computing their PD been carried out rather than waived, given the extremely poor credit quality of the borrowers, the actual Impairment Loss Allowance (Expected Credit Loss or ECL) that would have to be recognised as of March 31, 2019 would have been significantly higher than actually recorded, tending towards the full outstanding amount of the GPCL itself.
- (ix) In essence, the GPC Loans were not at all low credit risk, and this ought to have been an objective ground in terms of Ind AS 109 for RHFL to consider these GPC Loans under Stage 3. For the calculation of ECL, as per RHFL's Annual Report (reproduced above), Probability of Default is one of the factors to be considered. However, RHFL waived the criteria of Probability of Default while granting loans despite being aware of the extremely weak financials of such GPCL Borrowers, thereby mathematically rendering ECL as NIL (*according to RHFL's own computation as mentioned in their Annual Report and recorded in sub-para (v) above*). RHFL goes onto record a miniscule amount of INR 278 crore as overall ECL for FY18-19, of which provision for non-housing loan assets was only to the extent of INR 78.84 crore. This clearly did not reflect the true picture of the financials of RHFL and resulted in inflated revenue figures for the Company as all GPC Loans were considered as assets, but only a miniscule amount out of that was considered as ECL. Note that a majority of these GPC Loans were eventually declared NPAs by

RHFL; not surprising, given the glaring credit weaknesses that were well known and documented at the time of disbursal of the loans itself. This shows that RHFL has knowingly failed to comply with the applicable accounting standards despite having all information available with it. Therefore, it can be concluded that though there was very high and obvious risk of default at the time of disbursement of GPC Loans itself, the appropriate provision of impairment was not made in the books of accounts in terms of relevant accounting standards. The financials for the FY 2018-19 were inflated/ misrepresented to the extent of under-provisioning against the potential credit losses from the egregiously poor GPC lending.

- (x) I note that RHFL has disclosed that GPCLs were secured against tangible and intangible assets. However, as observed in earlier paragraphs dealing with diversion of funds, the said GPC Loans were secured against current assets of borrowers which were negligible. For instance, in the case of GPCL borrower- Gamesa Investment Management Private Limited (Noticee No. 14) loan of more than INR 200 Crore was disbursed despite the current assets of the borrower being only INR 26,000. Therefore, it cannot be said that the loans were secured against tangible and intangible assets at the time they were made.
- (xi) Accordingly, I find that RHFL has misrepresented its financial statements for the year 2018-19 by making incomplete, misleading, and false disclosures with respect to GPC Lending. It has also overstated its revenues by not making adequate provisioning against the impairment for GPC loans in terms of Ind AS 109. Therefore, I find that Noticee No. 1 has violated 4(1)(a), (b), (c), (d), (g), (h), (i), (j), 4(2) (b), (e) and 33(1) of LODR Regulations, 2015 read with Ind AS 109.
- (xii) I note that the then Statutory Auditor of RHFL (PWC) had resigned in June 2019. In April & May 2019, by way of separate letters, PWC had raised serious concerns with the RHFL management, inter alia, in relation to the loans

disbursed by RHFL under its GPCL product during the then ongoing Statutory Audit. The said letter, *inter alia*, noted the fact that the amount of loans disbursed by RHFL under GPCL had increased exponentially from around INR 900 Crore as on March 31, 2018 to around INR 7900 Crore as on March 31, 2019. Further, based on their examination of different samples of borrowers of such loans advanced by RHFL, PWC had highlighted certain issues of serious concern such as net-worth of such borrowers being negative; having limited/nil revenue or profit; no business activity of those borrowing companies other than borrowing money from RHFL for onward lending; low equity capital of borrowers in comparison to debt raised by them; incorporation of certain borrower companies shortly before disbursement of loans by RHFL; and in some cases, the loan sanction dates were found to be on the same date as the date of application for loan or even before the dates of applications made by these borrowers. Further, in the said letter, PWC also sought clarifications as to why the borrower entities should not be considered as group companies as email ID of borrower company was having domain address of Reliance ADA group, brand name of “Reliance” was appearing in the name of borrower company, Directors of such companies were employees of Reliance ADA group and multiple borrower companies having same registered address.

- (xiii) It is also relevant to mention that SEBI had *inter alia* referred this matter to National Financial Reporting Authority (‘NFRA’) with respect to the alleged lapses made by the Auditors of the Company. Upon considering the material available with them and the submissions made by M/s Dheeraj & Dhiraj (the statutory auditors of RHFL for FY18-19, appointed after the resignation of PWC), NFRA has passed an order dated April 26, 2024 *inter alia* holding that the statutory auditor did not perform sufficient appropriate audit procedures in respect of verification of company’s assumption of Expected Credit Loss and that Auditor did not exercise professional scepticism in view of the fraud or error in respect of RHFL’s loan disbursement to financially weak companies without appropriate business rationale and funds being diverted/ siphoned off to other

group entities. The relevant extracts of the said NFRA order are reproduced below:

“22)

g)*There is no challenge on any of the management contentions regarding irregularities in credit approval and sanction, credit policy, end use of borrowings, creditworthiness of borrowers, ..., deviations in approval, and non-monitoring of borrowers accounts. The business rationale for sanctioning such loans is not verified in all cases.*

h) *..no documentation for understanding how those charged with governance (TCWG) exercised oversight of management’s processes for identifying and responding to the risks of fraud in the entity and the internal control to mitigate these risks.*

....

24)*Any prudent auditor can understand the indications that the Company has attempted to depict irrecoverable loans as recoverable thereby materially misstating the financial statements. Also, there were possible instances of siphoning off of money, indicated by irrational business decisions, multiple layers of transactions and borrowers having insufficient resources. In the latter case, the scope of examination is much deeper than the reasonable assurance expected from a statutory auditor and hence called for specialised investigations.....However, neither the Auditor suggested any such investigation to the Company nor the company suo moto undertook any such examination.*

.....

C.4. Verification of Expected Credit Loss (ECL) on Financial Assets

36)

37).....

a) *There is insufficient evidence of substantive procedures performed to verify the ECL model. ...As per the model, the Company classifies an asset into one of the three stages solely based on Days Past Due*

(DPD) status. There is no consideration of the qualitative criteria for classifying loans. This is not in conformity with paragraph 5.5.11 of Ind AS 109.....

- b) Similarly, the Company's assessment of whether a loan or portfolio of loans has experienced significant increase in credit risk should also be based on forward looking indicators, if available without undue cost or effort, as per Ind AS 109...*
- c) There are several significant loans where the standard conditions were waived, eligibility was not as per norms, loan amount exceeded the maximum permitted, return on investments was below norms, no credit ratings, no ESCROW accounts and no cashflows/income.....Many borrowers did not have the financial strength to get such loans but the loans were disbursed. Therefore, all such loans disbursed during the year met the definition of Purchased or Originated Credit Impaired asset (POCI). However, the company did not recognise these loan assets as POCI thereby violating provisions of Ind AS 109 and Ind AS 107. Such loans were originated credit impaired and hence were required to account with a carrying value reflecting the lifetime expected credit losses as per Ind AS 109. A few instances noticed, to gauge the extent of misstatements, are given below:*

i) RHFL sanctioned loans of Rs. 50 crore to Hirma Power Ltd. and Rs. 55 crore to Tulip Advisors Private Ltd. in FY 18-19. The total exposure of these two companies was shown as Rs. 444.67 crore as per the ECL workings. As per the audit documentation, these two companies had virtually no revenues and were in losses. The net worth was completely eroded, and the loans were disbursed without any security, having no credit rating and after waiving all the requirements for a corporate loan as per the company's policies. Still these loans were classified under stage 1, with a nominal ECL of Rs. 41 lakh. These loans were evidently credit

impaired from the time they were made. As per Ind AS 109, financial assets that are credit impaired upon initial recognition are categorized within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. However, the loan was classified under stage 1 without any reduction in carrying value to reflect the credit impairment. This has resulted in material misstatements in the Financial Statements leading to the understatement of losses and overstatements of loans, the quantum of which cannot be assessed in the absence of data.”

55.3 CEO/ CFO Certificate issued by Noticee Nos. 4 and 5

- (i) Regulation 17(8) of the LODR Regulations provides for furnishing a Compliance Certificate in terms of the Part B of Schedule II to be issued by the CEO and CFO. Upon perusal of the said Part B of Schedule II, I note that the Compliance Certificate provides for the CEO and CFO to certify the following:
- (a) That they have reviewed the Financial Statement and Cash Flow Statement and to the best of their knowledge and belief, such statements do not contain any “materially untrue statement” or “omit” any material fact or “contains any misleading fact”. (emphasis supplied)
 - (b) That the aforesaid statements present a true and fair view of the affairs of the company and are also in compliance with the existing laws and accounting standards. (emphasis supplied)
 - (c) That to the best of the knowledge and belief of aforesaid KMPs, the company has not entered into any transaction which is fraudulent, illegal or violative of its Code of Conduct. (emphasis supplied)
 - (d) That its signatories accept responsibility for establishing and maintaining internal controls for financial reporting and also that they have evaluated the effectiveness of internal control systems related to financial reporting.

- (ii) I note that Noticee Nos. 4 and 5 were CEO and CFO respectively during the relevant period and had issued the Certificate envisaged under Regulation 17(8) of LODR Regulations. A critical responsibility is cast on the CEO and CFO for maintaining professional standards in the management of the Company and presenting a true and fair view before the Board of the Company. In earlier paragraphs of this Order, I have concluded that the Noticees had executed a fraudulent scheme for diverting funds of RHFL and misrepresented the financials. The role of Noticee Nos. 4 and 5 in orchestrating/ executing the fraudulent scheme and their active role in avoiding true and fair disclosures/ misrepresentation of financials has also been explained in detail in preceding paragraphs of this Order. Clearly, therefore, Noticee Nos. 4 and 5 issued a certificate under Regulation 17(8) as a mere formality without presenting a true and fair picture despite being aware of the conduct and true affairs of the Company. I note that Noticee No. 4 was even a member of the Credit Committee which was the approving authority for all loans of more than INR 5 Crore. As a member of the Credit Committee, Noticee No. 4 had approved the loan applications of GPCL borrowers despite observing many deviations from process and weak financials and lack of credit worthiness of the borrower. These loans subsequently turned into NPAs, and no concrete steps were taken for recovery of the said loans. Noticee No. 4 sanctioned loans to such entities who were, from day one, very likely to default on their repayment, thereby causing irreparable loss to the Company and its shareholders.
- (iii) Accordingly, I find that Noticee Nos. 4 and 5 have violated Regulation 17(8) read with Part B of Schedule II of SEBI (LODR) Regulations, Regulation 26 (3) and 33 (2) (a) of LODR Regulations read with Section 21 of SCRA.

55.4 **Failure of KMPs in discharging their responsibilities**

- (i) As already elaborated in previous paragraphs, Noticee Nos. 3 and 5, separately, functioned as CFOs in RHFL during the investigation period and Noticee No. 4 functioned as CEO in RHFL during the investigation period. Also, as explained earlier, Noticee 3 and Noticee 5 i.e. Amit Bapna and Ravindra Sudhalkar have been seen to have been part of the Credit Committee that approved several large GPCLs to patently weak and credit unworthy borrowers to RHFL's detriment. Noticee Nos. 3, 4 and 5 failed to provide complete and timely information regarding the GPC lending/ disbursal to the Board of Directors of RHFL, having been instrumental in approving/ disbursing loans in a fraudulent manner as elaborated earlier. Thus, Noticee Nos. 3, 4 and 5 have violated Regulation 17(7) read with Schedule II Part A (I), (O) of LODR Regulations, 2015. Noticee Nos. 3, 4 and 5 also went to the extent of allowing defiance of the express instruction of RHFL's Board, prohibiting any additional GPCLs. Every statement/ disclosure issued by Noticee No. 1 (RHFL) is attributable to the said Noticees in their capacity as KMPs, particularly considering their role in the fraudulent extension and disbursal of GPCLs, and the incomplete, false, and misleading disclosures with respect to the financials of the company.
- (ii) Noticee No. 5 (Pinkesh R. Shah) was the CFO of RHFL from August 2018 to May 2020. He has submitted that as CFO, he was not involved in business functions of RHFL and only dealt with its finance functions. However, he cannot reasonably distance himself from this fraudulent scheme. As CFO, he was overseeing the accounting and finance functions of the Company. In RHFL Board Meeting held on February 11, 2019, the Board had directed that no further lending of GPC Loans should be done by RHFL. However, even thereafter, large quantum of GPC Loans continued to be disbursed with impunity. On March 28, 2019, the Board reiterated its deep concerns and directed the management to rectify the position in compliance with the

directions given in the previous Board Meeting held on February 11, 2019. Noticee No. 5 was present in both the Board Meetings. As per Roles and Responsibilities of CFO, submitted by RHFL to SEBI vide letter dated December 24, 2021, he was *inter alia* responsible to ensure that all financial and accounting activities were carried out with highest degree of integrity controls, and in accordance with regulatory requirement and accepted practices. He was also responsible for timely and accurate preparation of all financial and management reports including reports to shareholders and to analyse the company operations to identify variances. As observed in preceding paragraphs of this Order, around 50% of the company's assets were disbursed to GPCL borrowers with dubious financial credentials and of very poor credit quality. Noticee was also responsible for the preparation of financial reports of RHFL, and to ensure that they were true and fair. However, as discussed in the preceding paragraphs of this Order, and despite the RHFL Board and statutory auditors making pointed references and questions related to the quality of GPCL and the implications thereof, the Noticee failed to present true and fair picture of financials of the Company to its shareholders, in violation of the provisions of LODR Regulations. The gross dereliction of duty as displayed by the Noticee as a CFO cannot be termed as mere negligence or ignorance; rather, by preponderance of probability given the facts of the case, Noticee no. 5 has connived with and contributed to the whole scheme of diversion of funds by RHFL.

- (iii) Noticee Nos. 3 and 4, in addition to being KMPs, were also both directors on the Board of RHFL. As directors of the listed company, they were responsible *inter-alia* for ensuring the integrity of listed entity's accounting and financial reporting systems and maintaining high ethical standards. The acts and omissions of these persons as elaborated earlier violate their fiduciary responsibilities to the company and its stakeholders, they infact played a pivotal role in perpetrating the fraudulent scheme of diverting the assets and funds of RHFL to the detriment of its shareholders and creditors. Therefore, I

find that these Noticees have also violated Regulation 4(2)(f)(ii)(6), (7) & (8) and Regulation 4(2)(f)(iii)(3), (6) & (12) of LODR Regulations, 2015.

56 Whether Noticee No. 3 can be said to have made false statement(s) during the investigation thereby making him liable for monetary penalty under Section 15A(a) of the SEBI Act, 1992?

56.1 During the statement recording of Noticee No. 3 (Amit Bapna) on December 16, 2021 before the Investigating Authority, SEBI, Noticee No. 3 stated that he was never associated with Reliance Media Works Limited ('RMWL'). Noticee has submitted that he was never on the board of or had anything to do with the affairs of RMWL directly. However, in the RHFL Board Meeting dated August 07, 2018, he has disclosed that he ceased to be a Nominee Director of RMWL. RMWL was a group company of RCL and as such had funded and supported the business of RMWL as it did for other group companies.

56.2 I note that Noticee was asked whether he was associated with RMWL and he had replied in negative to the same. As a Nominee Director, it is an incontrovertible fact that he was associated with RMWL.

56.3 Therefore, I am of the view that Noticee No. 3 disclosed wrong information to the investigating authority and hence, Noticee is liable for monetary penalty under Section 15A(a) of the SEBI Act.

57 SUMMARY OF THE CASE AND ROLE OF NOTICEES

57.1 To summarize the overall context of this case:

57.1.1 Through FY18-19, RHFL had been approving and disbursing a series of large GPC Loans, each for hundreds of crores of Rupees, cumulating to several thousands of crores of Rupees, to non-descript borrowers with extremely weak financials. In comparison to the quantum of loans disbursed, these borrowers had negative or negligible net worth, profits, assets, cash flows, and

businesses. Inexplicably, there was no other collateral or security or assurance that was recorded while disbursing these loans.

57.1.2 In approving these GPC Loans, in many cases, RHFL was again inexplicably, repeatedly, and widely, deviating from standard credit due diligence and processes. Despite the glaringly weak financials, *inter alia*, the borrowers were not being internally credit rated, the requirement for assessing probability of default of the loans was being waived, and the charge on any security (negligible as it was) was not being created.

57.1.3 Even after the RHFL Board on February 11, 2019 explicitly instructed the company to desist from disbursing any further GPC Loans, RHFL continued to disburse GPC Loans to the tune of thousands of crores of Rupees with impunity, but this time approved by an outsider to RHFL, Noticee No. 2 (Anil Ambani) in his capacity as Group Head.

57.1.4 Despite around half the assets of RHFL as of March 31, 2019 being in the form of GPC Loans to such dubious and credit unworthy entities, RHFL's FY18-19 financials purported that its Expected Credit Loss was very low. The earlier waiver of the requirement to compute Probability of Default of many of the borrowers is noteworthy in this regard.

57.1.5 It transpires now that all the GPC Loan borrowers covered in this order, and the entities they appeared to transfer or forward the funds to, were all connected to the promoter-group in some form or another. Subsequently, RHFL also received some post facto guarantees for some of the GPCL from some promoter-group companies, further highlighting the connection.

57.1.6 The Statutory Auditor of RHFL (PWC) resigned in June 2019. They had earlier raised serious concerns with the RHFL management, *inter alia*, in relation to the quality, recoverability, and possible related party status of loans disbursed by RHFL under its GPCL product during the then ongoing Statutory Audit. Dhiraj and Dheeraj were appointed auditors in their place, and they offered a qualified opinion with respect to the GPCL Loans. NFRA has subsequently passed an

order against Dhiraj and Dheeraj in April 2024, *inter alia* holding that statutory auditor did not perform sufficient appropriate audit procedures in respect of verification of company's assumption of Expected Credit Loss.

57.1.7 Belying the mild projections of Expected Credit Loss as presented by RHFL for FY18-19, much of the GPC Loans outstanding as of March 31, 2019, including to the borrower Noticees of this order, eventually had to be recognized as Non-Performing Asset or written off.

57.1.8 This is not a case of using the advantage of hindsight to castigate lenders for making out loans that were otherwise approved in good faith. As described above, even at the time of disbursal of the GPC Loans, the internal approval memos themselves recorded that several hundreds of crores of Rupees worth of loans were being made to non-descript and dubious entities that were plainly and utterly credit unworthy, accompanied by severe deviations in standard credit due diligence to boot.

57.1.9 The only rational explanation that can account for the above series of otherwise inexplicably terrible decisions and events, by overwhelming preponderance of probability, is that this was all part of an elaborate and nefarious scheme undertaken by all the Noticees to divert funds from RHFL to promoter-linked entities, while concealing the financial implications of their artifice to the investing public. As a result of their egregious device to siphon out several thousands of crores of Rupees from RHFL, aggregating to around half the assets of the company, the company eventually collapsed, causing immense loss to its investors and ecosystem.

57.2 I note that **Noticee No. 2 (Anil D Ambani)** had a significant role in the affairs of Reliance ADAG, and specifically with respect to the companies who are allegedly part of the fraudulent scheme for diverting the funds of RHFL, for the following reasons:

- He was the Chairman of ADA Group

- He was one of the promoters of RCL – the Holding company of Noticee 1 – RHFL
- He was disclosed as “person having significant influence” in the Annual Report of RCL (the Holding company of RHFL)
- He was disclosed as ‘significant beneficial owner’ of 3 companies (*Reliance Innoventures Pvt. Ltd*, *Reliance Inceptum Pvt. Ltd.* and *Reliance Infrastructure Consulting & Engineers Pvt. Ltd.*) which in turn are disclosed as promoter group entities of RHFL.
- As per the Annual Report of RCL for FY 2018-19, he is disclosed as ‘person having significant influence’ over ‘Reliance Big Entertainment Pvt. Ltd.’ (Noticee No. 27) and Reliance Cleangen Ltd. (Noticee No. 24), both of these being onward borrowers. Two other onward borrowers, namely Reliance Commercial Finance Ltd. (Noticee No. 23) and Reliance Exchangenext Ltd. (Noticee No. 22), were subsidiaries of RCL (which is also holding company of RHFL)
- Most of the GPCL borrowers were part of the ADA group

57.3 In his written submissions, Noticee No. 2 has placed focus on the expression ‘de facto controlling influence’ and argued that there is no concept of “influence” under securities law for the purpose of imposing penal liability. Noticee 2 has declared himself to be the Chairman of the ADA Group of companies, thereby clearly suggesting that he was in a position to influence or direct key decisions made by companies forming part of the said group. The expression ‘de facto controlling influence’ may not be defined by law. It appears that the said expression was used in the SCN along with the reference to Anil Ambani’s chairmanship of Reliance ADAG to point out the motivation behind his role in transferring monies to promoter group by approving ‘loans’ and his ability to influence the management of RHFL to approve such loans, even in cases where he did not directly approve the ‘loans’.

57.4 That Noticee No. 2 used his controlling position to ensure disbursement of such loans is also corroborated by the statements of Noticee No. 4 that loans were disbursed despite deviations, since borrowers were closely connected to RHFL and its promoter entities. Even without holding any executive position in RHFL, Noticee No. 2 sanctioned large amount of loans to such GPCL borrowers despite being made aware of the deviations in CAMs such as terribly weak financials and collateral, and waiver of standard due diligence in credit processes. As per material available on record and Interim Order, Noticee No. 2 approved 14 loan applications involving an amount of INR 1472.16 Crore in his capacity as Chairman of Reliance ADA Group during a period of just over 1.5 months (between February 11, 2019 – March 31, 2019).

57.5 It is also now clear that the transfer of monies, structured as GPC loans, were directly or indirectly made to entities that were related to the Reliance ADA Group. The abrupt and thoroughly irregular manner in which 'loans' were disbursed, the evidence of senior officials having canvassed for disbursing loans to such entities, the absolute lack of interest in recovering the dues, and Anil Ambani's own involvement in approving such 'loans' all point to the pressing desire on their part to transfer funds one way or another. Coupled with this, the ownership and management pattern of these companies (*both lender and borrowers*) leads to the conclusion that the 'loans' were motivated by Noticee No. 2's direct or indirect benefit through fund transfers to these companies.

57.6 The role played by **Noticee No. 3 (Amit Bapna)** in the scheme of fund diversion, is summarized below:

- (i) Amit Bapna was a Non-Executive Director of RHFL, CFO of RHFL for one part of FY 2018-19 and CFO of RCL i.e. the holding company of RHFL.
- (ii) He was a member of the Credit Committee of RHFL which approved the GPC Loans despite observing various deviations.

(iii) He had brought/ referred the GPCL borrowers to RHFL Credit Team for processing GPC Loans and played an active role to ensure that such loans were disbursed.

(iv) He had attended the RHFL Board Meeting of February 11, 2019 and was therefore aware of the decision taken against granting any more GPC Loans. The said Board meeting also decided to form a 3-member committee to review the GPC loans. In his role as CFO of RCL (RHFL's holding Company), he was in a position to be aware of the GPCL applications received from RHFL for 'confirmation' or approval even after RHFL Board's directions on February 11, 2019. Despite the same, he allowed GPC lending to continue unabated.

57.7 The role played by **Noticee No. 4 (Ravindra Sudhalkar)** in the scheme of fund diversion, is summarised below:

(i) Noticee No. 4 (Ravindra Sudhalkar) was the CEO and Executive Director of RHFL as well as a member of Credit Committee authorised to approve the loans for amount of more than INR 5 Crore.

(ii) As a member of the Credit Committee, he approved the loans of GPCL borrowers despite fundamental concerns (such as weak financials, absence of security for the loans etc.) having been recorded in the CAMs. Infact, Noticee seconded the proposals brought by Noticee No. 3 to Credit Team and then approved them hastily.

(iii) As CEO, he failed to take steps to recover money from GPCL borrowers and did not even invoke the guarantees taken from R-Power and R-Infra. Due to such failure, most of the GPCL accounts were declared as NPAs.

(iv) As CEO of RHFL, all the departments were reporting to him and he was the centre point for communication between RHFL Board and its Management. Even though he attended the Board Meeting dated February 11, 2019 and

specific directions were issued to Management with respect to GPC Loans, he has failed to implement the directions of the Board as the loans were sanctioned even after February 11, 2019.

- (v) Along with Noticee No. 5, he has issued a Compliance Certificate as per LODR Regulations stating that the financials of the company represent the true and fair picture of the company, which was completely false as already discussed in the preceding paragraphs of this Order.

57.8 The role played by **Noticee No. 5 (Pinkesh Shah)** is summarised below:

- (i) Noticee No. 5 was CFO of RHFL and was responsible for all financial and accounting functions of the Company.
- (ii) He was present in the February 11, 2019 and March 28, 2019 meetings of the Board of RHFL wherein direction to stop lending to corporates had been issued by the Board. Despite the same, GPC loans were allowed to be disbursed till May 2019.
- (iii) The erstwhile statutory auditor of RHFL i.e. PWC had in its letters in April-May 2019 letter communicated its concerns with respect to GPC lending. Similarly, the subsequent auditor, Dhiraj and Dheeraj had expressed its qualified opinion that it could not ascertain the recoverability of the loans. Despite these, Noticee No. 5 certified the financials of the company to be true and fair.
- (iv) He was responsible for ensuring that the financials of the Company represent a true and fair picture to the shareholders. Further, he was under an obligation to ensure that Company adhered to all regulatory norms and analyse company operations to identify variances. However, as can be seen from the scheme of GPCL lending for diversion of funds, he failed in his duty.
- (vi) Along with Noticee No. 4, he has issued a Compliance Certificate as per LODR Regulations stating that the financials of the company represent the true and

fair picture of the company, which was completely false as already discussed in the preceding paragraphs of this Order.

57.9 **Noticee Nos. 6-28** have played the role of being either recipients of illegally obtained loans or conduits to enable illegal diversion of monies from RHFL. Table 24, Images 17-19 and Annexure B1-B3 of this Order lists the various basis of connection between the borrowers and the promoters of RHFL.

CONCLUSION

59. The size of GPC loans lent by RHFL during the investigation period and the scale of the default during this limited period is evident from the following table:

Table - 37

Particulars	Amount (INR In Crore)
Total Loans disbursed by RHFL to 45 GPCL Entities (INR 8,470.65 crore* + of INR 824.60^ crore towards unaccounted disbursement by RHFL)	9,295.25
Loans disbursed by RHFL to Specified GPCL Borrowers% (Top 13 GPCL Borrowers i.e. Noticee Nos. 6-12 & 14-19)	4,944.34
Loans onward lent by the above 13 Specified GPCL Borrowers	4,533.43
Loans onward lent by 13 Specified GPCL Borrowers to 9 promoter related entities/ onward borrowers (i.e. Noticee Nos. 20-28)	4,013.43
NPA (INR 6779.01) and Write Off (INR 152.30 Crore) as on September 30, 2021 for 45 GPCL Entities*	6,931.31
NPA as on September 30, 2021 for 13 Specified GPCL Borrowers*	2,646.78

* As per information submitted by RHFL

^ Additional amount as per information submitted by GPCL Borrowers

60. Credit defaults in financing business are not by themselves unusual or suggestive of fraudulent activity. Inter-corporate loans or related party transactions (subject to disclosures and compliance with law) are also not per se illegal or suspicious. However, the facts and circumstances of this case clearly indicate that the defaults are the culmination of an elaborate and coordinated design to move funds from the public listed company to non-descript and financially weak privately held companies connected with the Reliance ADA group. Adequate disclosures around this were not made to the Public shareholders of RHFL, evidenced by the absence of any material disclosures mandated by securities law. SEBI's investigation was not the only one to arrive at this conclusion. Separately the reports of PWC (RHFLs statutory auditor) and that of Grant Thornton (forensic auditor appointed by lead bank of consortium of creditors of RHFL– Bank of Baroda) have also arrived at similar conclusions. Significantly, NFRA's order dated April 26, 2024 has also arrived at similar conclusions.
61. The facts of this case is particularly disturbing since it reveals complete breakdown of governance in a large listed company apparently orchestrated by and/ or at the behest of the promoter aided by the indulgent KMPs of the company. The Company which was subject to the regulatory framework laid down by NHB and subsequently RBI (as an HFC) as well as by SEBI (as a listed company) did not seem to care about the need to maintain high standards of governance. This is also a peculiar case where the company's management has brazenly defied the diktat of its own Board that had raised concerns about GPCL lending and asked the company management to ensure compliance with the law.
62. By preponderance of probability, the mastermind behind the fraudulent scheme is the Chairman of ADAG – Anil Ambani (Noticee No.2). It is also apparent that Noticees 3

to 5, KMPs of the company, played an active role in perpetrating the fraudulent scheme. While Noticee No. 2 was not a director in RHFL, he has used his position as 'Chairperson of the ADA group' and his significant indirect shareholding in the holding company of RHFL to orchestrate the fraud thereby not just adversely affecting RHFL's stakeholders but also the confidence in the integrity of governance structures in regulated financial sector entities. As a director and a KMP of both the listed company as well as its holding company, Noticee 3 – Amit Bapna - has clearly fallen well short of the standards of governance that was expected from him. The 'watchman' appointed by the Board to arrest the continuing decline in the financial stability of the public listed company, turned out to be part of the group that executed the fraudulent scheme. Similarly, Noticee no. 4 in capacity of CEO of RHFL was the central point of communication between the Board of Directors, all the personnel involved in Corporate Operations of the Company, and with all the senior management personnel like CRO, Operational Heads, Company Secretary etc. who were reporting to Noticee no. 4. This Order has elaborated on his direct involvement in the fraud by approving the 'loans' to ineligible customers, defying the decision of RHFL's board, and his wanton non-compliance with the legal mandate to make true and fair disclosures. The Company continued to disburse large quantum of GPC loans despite Noticee Nos. 3-5 being directly aware of the Board's directions not to do so. Both Noticee Nos. 4 and 5 had also signed off on CEO/ CFO certifications actively hiding the true state of affairs in RHFL. Noticee Nos. 6-28 have played the role of being either recipients of illegally obtained loans or conduits to enable illegal diversion of monies from RHFL.

63. When juxtaposed against a well regulated financial system where extending even small ticket loans is subject to multiple checks and restrictions, the cavalier approach by the company management and the promoter in approving loans amounting to hundreds of crores to companies many of which had negligible assets, cash flows, net worth, or revenues, suggests a sinister objective behind the 'loans'. This sinister objective becomes all the more clear when the relationship of the borrowers with the promoters of RHFL are taken into account.

64. Subsequently, most of the GPCL borrowers' accounts turned NPAs and as a consequence of the same, RHFL defaulted in its payment obligations towards its lenders which has culminated in its Resolution under RBI Framework. As a result, the company's public shareholders have been left high and dry. As a point of reference, as of March 2018, the RHFL scrip price had closed at around INR 59.60. By March 2020, as a result of this egregious scheme to hollow out the company by siphoning out significant funds, and as clarity emerged about the extent of the fraud involved, the share price had collapsed to INR 0.75. Even as on date, there are more than 9 lakh shareholders that are invested in RHFL.

65. In view of the findings in this Order, that the Noticees have violated the following provisions of the SEBI Act, SEBI (PFUTP) Regulations, 2003 and SEBI (LODR) Regulations, 2015, punitive and deterrent measures must follow:

Table - 38

Noticee Nos.	Name of the Entity (PAN in bracket)	Violations
1.	Reliance Home Finance Limited	• Section 12A(a), (b), (c) of SEBI Act, 1992 r/w Regulation 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of SEBI (PFUTP) Regulations, 2003 • Regulations 4(1)(a)(b)(c), (d), (g), (h), (i), (j), 4 (2) (b) and (e), 30(1), 30(7), 51(1) of SEBI (LODR) Regulations, 2015 r/w Sec 21 of SCRA, 1956
2.	Anil D. Ambani	• Section 12A(a), (b), (c) of SEBI Act, 1992 r/w Regulation 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of SEBI (PFUTP) Regulations, 2003

3.	Amit Bapna	• Section 12A(a), (b), (c) of SEBI Act, 1992 r/w Regulation 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of SEBI (PFUTP) Regulations, 2003 • Regulation 17(7) read with Schedule II Part A (I), (O) of SEBI(LODR) Regulations, 2015 • Reg. 4(2)(f)(ii) (6) (7) (8), 4(2)(f)(iii) (3), (6) & (12) of SEBI (LODR) Regulation r/w Sec 21 of SCRA, 1956 • Section 11(C)(5) & (6) of SEBI Act, 1992
4.	Ravindra Sudhalkar	• Section 12A(a), (b), (c) of SEBI Act, 1992 r/w Regulation 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of SEBI (PFUTP) Regulations, 2003 • Regulation 17(7) read with Schedule II Part A (I), (O) of SEBI(LODR) Regulations, 2015 • Regulation 17(8) read with Part B of Schedule II of SEBI (LODR) Regulations, 2015, Regulation 26(3), 33(2)(a) of SEBI (LODR) Regulations, 2015 r/w Sec 21 of SCRA, 1956 • Reg. 4(2)(f)(ii) (6) (7) (8), 4(2)(f)(iii) (3), (6) & (12) of SEBI (LODR) Regulation r/w Sec 21 of SCRA, 1956
5.	Pinkesh R. Shah	• Section 12A(a), (b), (c) of SEBI Act, 1992 r/w Regulation 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of SEBI (PFUTP) Regulations, 2003 • Regulation 17(7) read with Schedule II Part A (I), (O) of SEBI(LODR) Regulations, 2015 • Regulation 17(8) read with Part B of Schedule II of SEBI (LODR) Regulations, 2015, Regulation 26(3), 33(2)(a) of SEBI (LODR) Regulations, 2015 r/w Sec 21 of SCRA, 1956

6.	Adhar Project Management and Consultancy Pvt. Ltd.	Regulation 3 (b), (c), (d), 4(1), 4(2)(f), (k) and (r) of SEBI (PFUTP) Regulations, 2003 r/w Section 12A(a), (b), (c) of SEBI Act, 1992
7.	Indian Agri Services Pvt. Ltd.	
8.	Phi Management Solutions Pvt. Ltd.	
9.	Arion Movie Productions Pvt Ltd	
10.	Citi Securities and Financial Services Pvt. Ltd.	
11.	Deep Industrial Finance Limited	
12.	Azalia Distribution Pvt. Ltd.	
13.	Vinayak Ventures Pvt. Ltd.	
14.	Gamesa Investment	

	Management Pvt. Ltd.	
15.	Medybiz Pvt. Ltd.	
16.	Hirma Power Limited	
17.	Tulip Advisors Pvt. Ltd.	
18.	Mohanbir Hi-Tech Build Pvt. Ltd.	
19.	Netizen Engineering Pvt. Ltd.	
20.	Crest Logistics and Engineers Pvt. Ltd. (Now Known as CLE PVT. LTD.)	
21.	Reliance Unicorn Enterprises Pvt. Ltd.	
22.	Reliance Exchange next Limited	

23.	Reliance Commercial Finance Limited	
24.	Reliance Cleangen Limited	
25.	Reliance Business Broadcast News Holdings Limited	
27.	Reliance Big Entertainment Pvt. Ltd.	

DIRECTIONS:

66. The findings made in the foregoing paragraphs of this Order have established the existence of a fraudulent scheme, orchestrated by Noticee No. 2 and administered by the KMPs of RHFL, to siphon off funds from the public listed company (RHFL) by structuring them as 'loans' to credit unworthy conduit borrowers, and in turn, to onward borrowers, all of whom have been found to be 'promoter linked entities' i.e. entities associated/ linked with Noticee 2 (Anil Ambani). The relationship of onward borrowers with Noticee No. 2 is described in Table - 28 of this Order.

67. As per the material available on record for Board Meeting dated February 11, 2019, I note that upon being presented with the data pertaining to disproportionate lending to GPCL borrowers by RHFL (55% to GPC Loans as compared to 45% for housing loans), Board of Directors of RHFL expressed concern on composition of lending portfolio. Further, Board of RHFL *inter alia* directed the management to provide no

further lending to corporates, auditors to check the documentation of loans, whether due diligence was done and verifying the adequacy of security. Further, RHFL Board constituted a sub-committee (where Noticee No. 3 was also a member) to review such exposures to corporate loans on bi-monthly basis. I note that Board of RHFL had issued strong and equivocal directions with respect to GPC Loans so as to protect the interests of the company. However, as already discussed in this Order, the functionaries of the Company did not comply with the directions of the Board. As observed from the CAMs approved after February 11, 2019, Noticee Nos. 3 & 4's name were conspicuously missing from such CAMs sent to Noticee No. 2. However, as noted from the Minutes of Board Meeting and organogram, Noticee Nos. 3 – 5 were authorized to issue instructions to the functionaries of RHFL, including the employees who had signed the CAMs put up after February 11, 2019. In the peculiar facts and circumstances of this case, by preponderance of probability, the only rational explanation is that certain KMPs under the instruction of Noticee No. 2, who was not holding any position in governance of RHFL, systematically stripped the company's assets/ funds in blatant defiance of the RHFL Board's direction. This being the case, it would be unfair and disproportionate to treat the company RHFL on the same footing as that of the aforesaid persons. The directions must therefore, in my view, take into account the aforesaid mitigating factor.

68. It is a matter of record that Noticee No. 5 had attended the RHFL Board's meetings held on February 11, 2019 and March 28, 2019 wherein Board had inter alia expressed concerns on GPC lending and directed the same to be discontinued. The then statutory auditor PWC had also raised queries on the GPCL lending process and was continuously communicating with him. Despite the concerns of the Board and PWC, I note that GPC loans continued to be extended till May 2019. Further, he, along with Noticee No. 4, was responsible for misrepresentation of financials of the Company and issuing certificate under Regulation 17(8) of LODR Regulations certifying that all the financial statements did not contain any materially untrue statement. However, as per the material available on record, I note that Noticee No. 5 did not approve the 'loan'

applications of the GPCL borrowers. I also note that Noticee No. 5's direct role in actual disbursal of 'loans' to GPCL borrowers is not supported by conclusive material on record. Therefore, unlike Noticee Nos. 3 & 4, the role of Noticee No. 5 as a KMP in the fraudulent scheme is relatively different and the same needs to be considered while issuing directions against Noticee No. 5, in the interest of proportionality.

69. It is well established through various decisions of the Hon'ble Supreme Court, Hon'ble High Courts and Hon'ble SAT that the scope of the power under Section 11B of the SEBI Act is wide, under which directions can be passed to order refunds/ bring back monies/ disgorge illegal gains made by any person in violation of securities law.

70. I note that investigation in the matter has concluded that the Noticees were involved in perpetrating a fraudulent scheme by disbursing GPC 'loans' resulting in erosion of the company's finances due to such loans ventually being declared NPA. Though the Interim Order cum SCN explicitly alleges that promoter/ promoter linked entities were beneficiaries of the funds diverted from RHFL, the gains they made haven't been quantified and persons haven't been directed to show cause why a specific gain should not be refunded or disgorged. I note that Investigation Report and Interim Order contain repeated references to promoter-linked entities being the beneficiaries of the funds diverted from RHFL. Also, the Investigation Report and Interim Order contain repeated references to GPC 'loans' given by RHFL being rendered NPA. From the aforesaid two sets of references, it may be inferred that NPAs of RHFL were equated with the benefits made by promoter linked entities for the purposes of Show Cause Notice issued to the Noticees. I am of the view that there is a need to quantify such receipts/ gains and ascertain the real beneficiaries behind the web of companies as illustrated in images at Annexure B1-B3 and discussed in paragraph 54.5 above. Therefore, in compliance with principles of natural justice, I find that illegal gains, if any, must be quantified. Noticees who have made the said gain must be identified, and an opportunity should be granted to Noticees' to rebut the findings of SEBI on the

illegal gains/ benefits made by them, before any direction is passed with respect to such gains.

71. I note that Interim Order cum SCN called upon Noticee Nos. 3-5 to show cause as to why any other suitable directions including directions of recovery of remuneration as paid by RHFL during the period of investigation be not issued against them. In this regard, I note that the allegation in the Interim Order *inter alia* is that Noticee Nos. 3-5 are that they aided diversion and/ or misuse of funds of a listed company for the benefit of the other Reliance ADA group entities and exhibited gross misconduct and unprofessional behaviour on their part while approving the GPC loans leading to erosion of wealth of shareholders. However, I note that there is no allegation with respect to the legality of their appointment to the positions held by them in the Company or that they benefitted from the diversion of funds of the listed company.

72. I note that salary/ remuneration of a person is a compensation for the work done by him in the professional capacity for which he is duly appointed by the Company and it cannot be considered as profit made by that person. I note that Hon'ble SAT delved on the issue of disgorgement of salary in the matter of NSE v. SEBI²² and held as follows:

“218. We also note that the direction to disgorge 25% of the salary is patently erroneous. The power under Sections 11 and 11B for disgorgement cannot be extended to recover money from salary. Salary is a periodical payment for one's labour. As per Black's Law Dictionary Eight Edition salary means compensation for services. Salary is given to a person as a remuneration for the work that he does in an organization. Salary is not a profit nor can it be termed as an unfair gain for the work which the person has done in the organization. If the person is not in service/employed, the question of

²² SAT Order dated January 23, 2023 (SAT Appeal No. 333/2019, leading matter in a bunch of appeals)

disgorgement from the salary does not arise. Recovery from salary can only be done when the person is in service/employed. Disgorgement under Sections 11 and 11B can only be made for illegal or unethical acts through such transactions or activity which is in contravention to the provisions of the SEBI Act or the provisions made thereunder. In the absence of any illegal or any unethical acts and in the absence of any finding of unlawful gain being made by them the direction to disgorge 25% of the salary is wholly illegal and cannot be sustained. Directions under Sections 11 and 11B are equitable in nature. Disgorgement has been held to be an equitable direction. In our opinion, direction for disgorgement from salary amounts to penal recovery. It becomes punitive and not equitable.” (emphasis supplied)

73. In view of the above and absence of any findings made in the Interim Order cum SCN regarding illegal gains made by Noticee Nos. 3-5, I am of the view that it is not a fit case for issuance of directions for recovery of remuneration against these Noticees. However, the Noticees conduct warrants remedial and punitive directions with respect to their association with the securities market, intermediaries and listed companies considering the serious damages that they have done to the integrity of the securities market.
74. Considering the egregious nature of the fraud perpetrated in this case, I am of the view that the maximum possible penalty must be imposed on all Noticees except against Noticee Nos. 1 and 5 for the reasons cited in paragraphs 67 and 68 respectively.
75. In view of the aforesaid findings and having regard to the facts and circumstances of the case, I, in exercise of the powers conferred upon me under Sections 11(1), 11(4), 11(4A), 11B(1) and 11B(2) read with Section 15A(a), 15HA and 15HB and Section 19 of the SEBI Act, 1992 and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, direct as under:
- (i) Noticee No. 1 is restrained from accessing the securities market and prohibited

from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of 6 months, from the date of coming into force of this order.

- (ii) Noticee Nos. 2 – 25 and 27 are restrained from accessing the securities market and prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, for a period of 5 years, from the date of coming into force of this order.
- (iii) Noticee No. 2 is restrained from being associated with the securities market including as a director or Key Managerial Personnel in any listed company, holding/ associate company of any listed company, or in any intermediary registered with SEBI, for a period of 5 years, from the date of coming into force of this direction.
- (iv) Noticee Nos. 3 - 5 are restrained from being associated with the securities market including as a director or Key Managerial Personnel in any listed company, or any intermediary registered with SEBI, for a period of 5 years, from the date of coming into force of this direction.
- (v) The present proceedings initiated against Noticee No. 26 (Reliance Broadcast Network Limited) and Noticee No. 28 (Reliance Capital Limited) shall be decided by separate orders for the reasons mentioned at paragraphs 50.2 and 50.3 above.
- (vi) Noticees are hereby imposed with the penalties as specified hereunder:

Table - 39

Noticee No.	Name of Noticee	Provisions under which penalty imposed	Penalty Amount (in Rupees)
1	Reliance Home Finance Limited	Section 15HA of the SEBI Act	5,00,000

		Section 15HB of the SEBI Act	1,00,000
2	Anil D. Ambani	Section 15HA of the SEBI Act	25,00,00,000
3	Amit Bapna	Section 15HA of the SEBI Act	25,00,00,000
		Section 15HB of the SEBI Act	1,00,00,000
		Section 15A (a) of the SEBI Act	1,00,00,000
4	Ravindra Sudhalkar	Section 15HA of the SEBI Act	25,00,00,000
		Section 15HB of the SEBI Act	1,00,00,000
5	Pinkesh R. Shah	Section 15HA of the SEBI Act	20,00,00,000
		Section 15HB of the SEBI Act	1,00,00,000
6	Adhar Project Management and Consultancy Private Limited	Section 15HA of the SEBI Act	25,00,00,000
7	Indian Agri Services Private Limited	Section 15HA of the SEBI Act	25,00,00,000
8	Phi Management Solutions Private Limited	Section 15HA of the SEBI Act	25,00,00,000
9	Arion Movie Productions Pvt. Ltd.	Section 15HA of the SEBI Act	25,00,00,000
10	Citi Securities and Financial Services Private Limited	Section 15HA of the SEBI Act	25,00,00,000
11	Deep Industrial Finance Limited	Section 15HA of the SEBI Act	25,00,00,000

12	Azalia Distribution Private Limited	Section 15HA of the SEBI Act	25,00,00,000
13	Vinayak Ventures Private Limited	Section 15HA of the SEBI Act	25,00,00,000
14	Gamesa Investment Management Private Limited	Section 15HA of the SEBI Act	25,00,00,000
15	Medybiz Private Limited	Section 15HA of the SEBI Act	25,00,00,000
16	Hirma Power Limited	Section 15HA of the SEBI Act	25,00,00,000
17	Tulip Advisors Private Limited	Section 15HA of the SEBI Act	25,00,00,000
18	Mohanbir Hi-Tech Build Private Limited	Section 15HA of the SEBI Act	25,00,00,000
19	Netizen Engineering Private Limited	Section 15HA of the SEBI Act	25,00,00,000
20	Crest Logistics and Engineers Private Limited (Now Known As CLE PRIVATE LIMITED)	Section 15HA of the SEBI Act	25,00,00,000
21	Reliance Unicorn Enterprises Private Limited	Section 15HA of the SEBI Act	25,00,00,000
22	Reliance Exchange next Limited	Section 15HA of the SEBI Act	25,00,00,000
23	Reliance Commercial Finance Limited	Section 15HA of the SEBI Act	25,00,00,000

24	Reliance Cleangen Limited	Section 15HA of the SEBI Act	25,00,00,000
25	Reliance Business Broadcast News Holdings Limited	Section 15HA of the SEBI Act	25,00,00,000
27	Reliance Big Entertainment Private Limited	Section 15HA of the SEBI Act	25,00,00,000

(vii) Noticees shall pay the respective penalty imposed on them within a period of forty-five (45) days from the date of receipt of this order.

(viii) Noticees shall pay the monetary penalty by online payment through following path on the SEBI website: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairman/ Members → Click on PAY NOW. In case of any difficulties in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in.

(ix) Noticees shall forward details of the online payment made in compliance with the directions contained in this Order to the Division Chief, CFID, SEBI, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai-400 051" and also to e-mail id:- tad@sebi.gov.in in the format as given in table below:

Case Name	
Name of the Payee	
Date of Payment	
Amount Paid	
Transaction No.	
Bank Details in which payment is made	
Payment is made for:	Penalty

76. This Order shall come into force with immediate effect.

77. As discussed in paragraph 69 above, SEBI shall determine the quantum of illegal gains/ benefit made by way of the fraudulent scheme as established in this Order and action may be initiated in accordance with law.

78. A copy of this Order shall be served on the Noticees. A copy of this Order shall be forwarded to the Stock Exchanges, Depositories, Registrar and Share Transfer Agents and Banks to ensure necessary compliance.

DATE: AUGUST 22, 2024

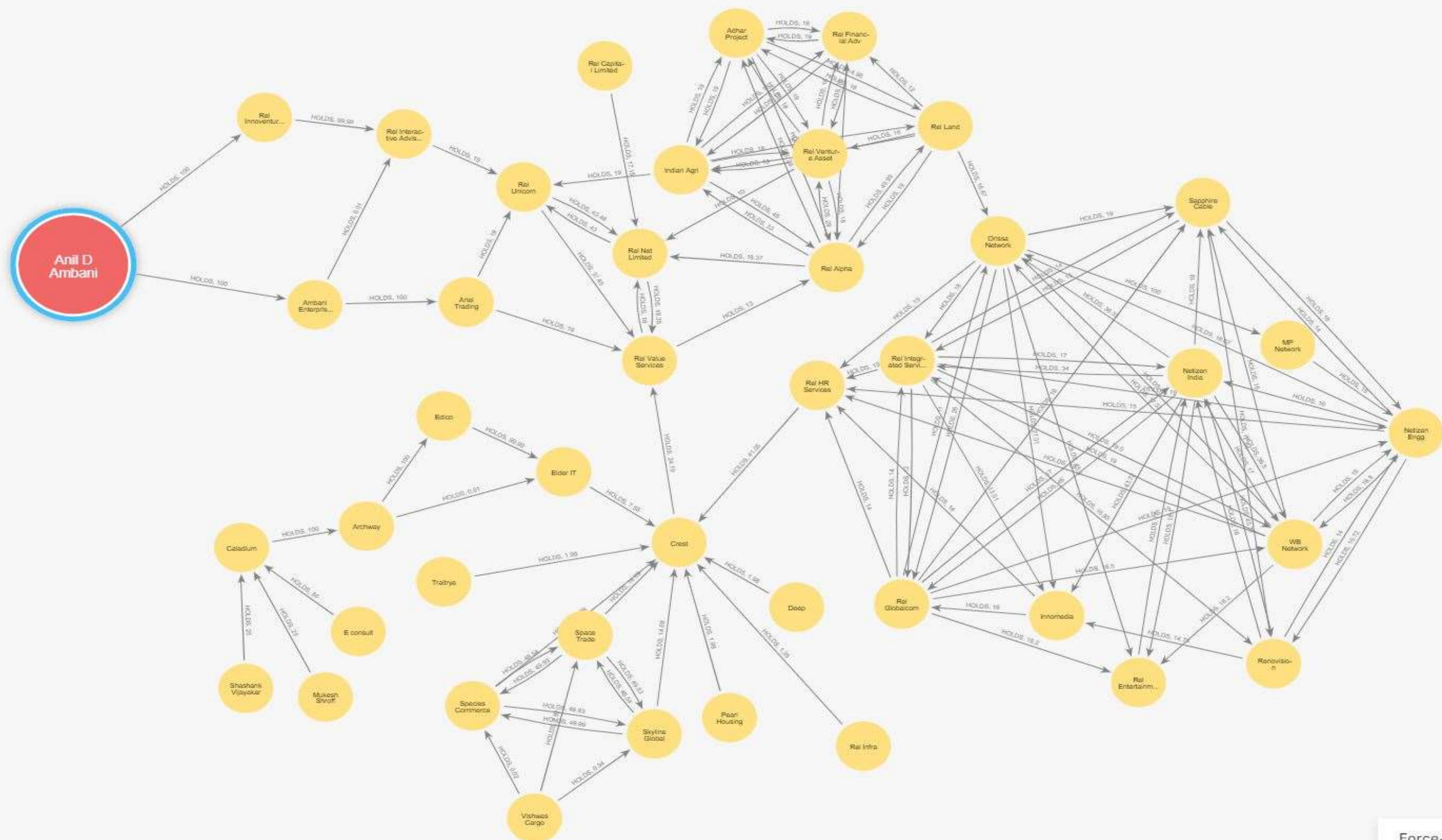
ANANTH NARAYAN G.

PLACE: MUMBAI

WHOLE TIME MEMBER

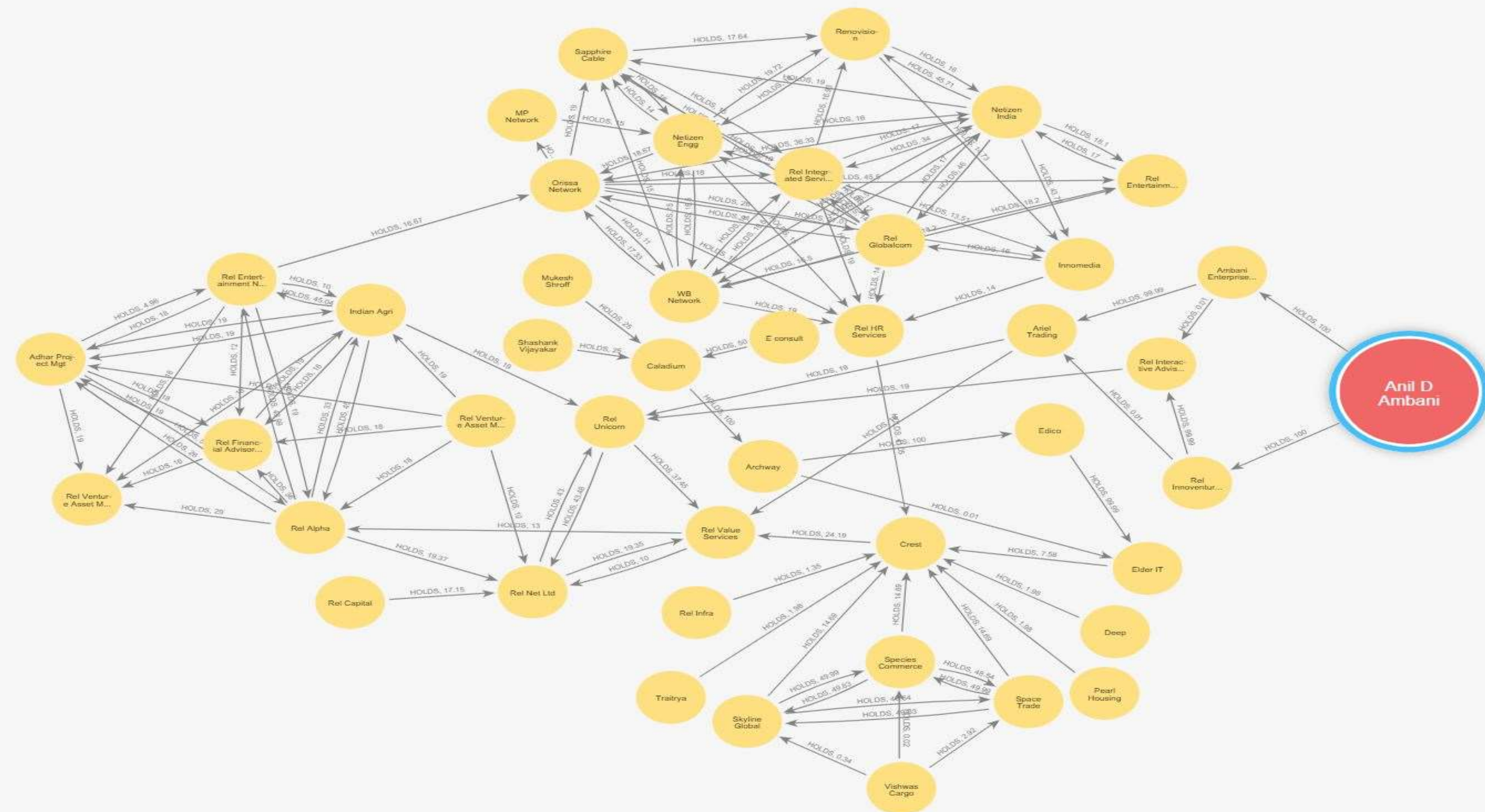
SECURITIES AND EXCHANGE BOARD OF INDIA

Annexure B1 - Shareholding Pattern of Indian Agri Services Pvt. Ltd. (Noticee No. 7)



Force-bas

Annexure B2 - Shareholding Pattern of Crest Logistics and Engineers Pvt. Ltd. (Noticee No. 20)



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