QJA/MN/CFID/CFID-SEC4/32566/2026-27

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11(1), 11(4), 11(4A), 11B (1) and 11B(2) OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995.

In respect of:

Noticee No.	Name of the Noticee	PAN
1	Zee Entertainment Enterprises Ltd.	AAACZ0243R
2	Mr. Punit Goenka	AAEPG2529E
3	Mr. Subhash Chandra	AACPC4004A

In the matter of unauthorised pledge of immovable property of Zee Entertainment Enterprises Ltd.

(The aforesaid entities are referred to by their corresponding names/numbers and collectively referred to as “Noticees”)

BACKGROUND

1. Securities and Exchange Board of India (“**SEBI**”) during the course of investigation in pursuance of the SEBI interim order passed on June 12, 2023 observed that the Statutory Auditors of Zee Entertainment Enterprises Ltd. (hereinafter referred to as “**ZEEL/ the company**”) had reported in their audit report for the FY ending March 31, 2019, that the title deeds of certain immovable properties of ZEEL were missing.

2. SEBI took up the investigation of missing title deeds for possible violation of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (“**PFUTP Regulations**”) and Securities and Exchange Board

of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**SEBI LODR Regulations**”), if any.

3. **<u>Show Cause Notice and Allegation</u>**: Based on the findings of the investigation, the following allegations were made against the Noticees:

3.1 The allegations arise from the use of ZEEL’s immovable property situated at Road No. 78, Jubilee Hills, Shaikpet Village, Hyderabad, admeasuring 17,639.64 square metres (hereinafter referred to as ‘***Hyderabad land***’), as security for loans availed by four entities belonging to the Essel Group.

3.2 On December 13, 2016, four entities of Essel Group viz. Gnex Projects Private Limited, Vivek Infracon Private Limited, Gnex Infrabuild Private Limited and Renu Realtech Private Limited (“***the borrowing entities***”) had availed four separate loans aggregating to ₹726 crores from Indiabulls Housing Finance Limited (“***IHFL***”). The respective loan amounts were ₹116 crores, ₹170 crores, ₹230 crores and ₹210 crores. Essel Home Private Limited (“**Essel Home**”) was the ‘co-borrower’ under the loan arrangements.

3.3 As on March 31, 2019, Essel Home held the entire share capital of each of the four borrowing entities. Though the ownership of Essel Home was held through multiple corporate layers, the investigation traced its ultimate ownership and control to Ms. Sushila Goenka, Noticee No.2 and Essel International Limited.

3.4 Noticee No.3 had held the entire beneficial ownership of Essel International Limited as on January 21, 2013 and July 30, 2015. As on June 19, 2023, its entire beneficial ownership was held by Celestine Family Trust, whose beneficiaries were the family members of Noticee No.3. On this basis, the SCN alleged that the borrowing entities and Essel Home were ultimately controlled by Noticee No.3, Noticee No.2 and their family members.

3.5 This connection was also sought to be supported by ZEEL's own financial disclosures. Edisons Infrapower & Multiventures Private Limited and Konti Infrapower & Multiventures Private Limited, which indirectly held interests in the borrowing entities, had been disclosed by ZEEL as related parties in its financial statements for FY 2018-19 and FY 2019-20. They were described as companies controlled by key managerial personnel and their relatives.

3.6 On November 14 and 15, 2018, IHFL issued two notices to the four borrowing entities and Essel Home for failure to maintain the stipulated security cover. The borrowing entities were called upon to create or provide additional security and to pay default interest under the respective loan agreements.

3.7 It is in the above background that, it is alleged that on December 27, 2018, Noticee No.3 executed a Declaration and Acknowledgment in favour of IHFL on behalf of ZEEL ("***2018 D&A***"). He signed the document as the authorised signatory of ZEEL and deposited with IHFL the original title deeds relating to the Hyderabad land. The document recorded that the title deeds were deposited with the intention of creating a first-ranking mortgage over the property in favour of IHFL.

3.8 ZEEL property was offered as additional security for repayment of the loans availed by the borrowing entities. Thus, it was alleged that the benefit arising from the deployment of ZEEL's property flowed to entities allegedly controlled by Noticee No.3, Noticee No.2 and their family members.

3.9 It was further alleged that Clause 18 of the 2018 D&A contained a declaration that ZEEL had obtained all requisite permissions and approvals from the competent authorities and persons for creating the first-ranking mortgage and that ZEEL possessed the necessary power to secure the dues of the borrowing entities.

3.10 The investigation, however, did not find any prior approval of the Audit Committee, the Board of Directors or the shareholders of ZEEL for the creation of security over the Hyderabad land.

3.11 ZEEL subsequently stated, in its email dated April 10, 2024 submitted during the investigation on behalf of its directors and officers, that the company was unaware of the mortgage. Thus, while the 2018 D&A represented to IHFL that all necessary corporate approvals had been obtained, ZEEL's subsequent stand was that its management and Board had no knowledge of the transaction and had never authorised it. In view of this there was an allegation that the representation contained in Clause 18 of the 2018 D&A was incorrect.

3.12 Since the borrowing entities were allegedly controlled by the key managerial personnel of ZEEL and their relatives, they were alleged in the SCN as *related parties* of ZEEL under Ind AS 24. Ind AS 24 treats a transfer of resources, services or obligations between a reporting entity and a related party as a *related-party transaction*, irrespective of whether any consideration is charged.

3.13 ZEEL and the borrowing entities were alleged to be related-parties. Consequently, the execution of the 2018 D&A and the deposit of ZEEL's title deeds were alleged to constitute a related-party transaction requiring prior approval of the Audit Committee under Regulation 23(2) of the SEBI LODR Regulations. The transaction was not placed before the Audit Committee. The borrowing entities were also not disclosed as related parties, and the use of the Hyderabad land for securing their loans was not disclosed as a related-party transaction in ZEEL's financial statements.

3.14 In the meantime, IHFL filed an application under Section 9 of the Arbitration and Conciliation Act, 1996, before the Hon'ble Delhi High Court for protection of the securities provided against the four loans to the borrowing entities. Noticee No.3 (Respondent No. 1) and ZEEL, through its directors (Respondent No. 18), were among the respondents in those proceedings. IHFL sought orders restraining the respondents from disposing of or altering the securities furnished for the loans during the pendency of the arbitration proceedings and for restraining Noticee No.3 from disposing of his movable and immovable assets and securing an amount of ₹461.83 crore in favour of IHFL.

3.15 The proceedings were first heard on April 1, 2019. Advocates appeared on behalf of all the respondents, including ZEEL. On May 1, 2019, the Hon'ble Delhi High Court granted interim protection in favour of IHFL. The pendency of the proceedings and the orders passed therein were not disclosed by ZEEL to the stock exchanges.

3.16 On May 27, 2019, Deloitte Haskins & Sells LLP ("**Deloitte**"), the statutory auditor of ZEEL, reported in the Report on Companies (Auditor's Report) Order, 2016 ("**CARO Report**") dated May 17, 2019 forming part of ZEEL's Annual Report for FY 2018-19, that the original title deeds relating to certain immovable property of ZEEL were not available with the company. The property referred to was the same Hyderabad land whose title deeds had been deposited with IHFL under the 2018 D&A.

3.17 On the same date, Noticee No.2, in his capacity as Managing Director ("MD") and Chief Executive Officer ("CEO") of ZEEL, signed a management representation letter addressed to the statutory auditors. The letter represented that there were no liens or encumbrances over the assets of ZEEL, even though it also acknowledged that the company did not readily possess the original title deeds relating to the Hyderabad land.

3.18 These facts form the basis of the allegation that Noticee No.3 caused ZEEL's property to be deployed for the benefit of promoter-related entities without obtaining the requisite corporate approvals and made an incorrect declaration to IHFL that such approvals had been obtained. They also form the basis of the allegation that Noticee No.2, despite being the MD of ZEEL and allegedly having knowledge of the transaction, failed to prevent the use of the asset or disclose it to the Board, the Audit Committee and the statutory auditors.

3.19 The proceedings before the Hon'ble Delhi High Court proceeded further. On June 3, 2019, advocates appeared for all the respondents, including ZEEL and Noticee No.3. During the hearing, the respondents undertook that the properties situated at Jhajjar and Hyderabad, which formed part of the security created for the four loans aggregating to ₹726 crores, would not be disposed of or encumbered without the permission of the Court.

3.20 Despite the pendency of the litigation, the interim orders passed by the Hon'ble Delhi High Court and the non-disposal undertaking relating to the Hyderabad land, ZEEL did not disclose these developments to the stock exchanges.

3.21 The alleged fraudulent creation of security over ZEEL's property was alleged in the SCN as a *deemed material event* under Item 6 of Para A of Part A of Schedule III to the SEBI LODR Regulations. The institution of proceedings concerning that security, the orders passed by the Hon'ble Court and the undertaking restricting disposal of the property were alleged to be material developments arising from the original event.

3.22 ZEEL was, therefore, alleged to have been required to disclose the creation of the security within twenty-four hours and thereafter provide regular updates concerning the litigation and other material developments until the matter was resolved or closed. No such disclosures were made under Regulation 30(1), 30(2), 30(6) or 30(7) of the SEBI LODR Regulations.

3.23 ZEEL also did not host any disclosure in respect of the alleged unauthorised pledge, the Hon'ble Delhi High Court proceedings or the non-disposal undertaking on its website. Therefore, it was alleged that there is failure to comply with Regulation 30(8), which required the disclosed event to remain hosted on the company's website for the prescribed period.

3.24 The title deeds continued to remain with IHFL after the close of FY 2018-19. The deposit of the title deeds exposed ZEEL's property to enforcement if the borrowing entities failed to discharge their liabilities. This exposure continued until the title deeds were released. The SCN accordingly alleges that the pledge gave rise to a *contingent liability* requiring disclosure under Ind AS-37 from December 27, 2018 until the release of the title deeds. ZEEL, however, did not disclose such contingent liability in its financial statements for FY 2018-19, FY 2019-20 or FY 2020-21.

3.25 The alleged related-party nature of the transaction was also not disclosed in the financial statements for these years. The borrowing entities were not identified as related parties, and the use of ZEEL's property for securing their obligations was not reported as a related-party transaction under Ind AS-24.

3.26 Noticee No.2 continued as the MD and CEO of ZEEL during the relevant period. He signed the CEO–CFO certifications issued under Regulation 17(8) of the SEBI LODR Regulations for FY 2018-19 and FY 2019-20. These certifications were issued despite the alleged non-disclosure of the related-party transaction, the contingent liability, the encumbrance over the Hyderabad land and the litigation concerning the property. Therefore, the SCN alleges that the certifications were incorrect and misleading.

3.27 Noticee No.2 also signed the Directors' Reports for FY 2018-19 and FY 2019-20. The Directors' Responsibility Statements contained therein represented that the applicable accounting standards had been followed in preparing the annual accounts. Since the transaction and the alleged contingent liability were not accounted for or disclosed in accordance with Ind AS-24 and Ind AS-37, these statements were also alleged to be incorrect.

3.28 On June 1, 2020, IHFL released the original title deeds relating to the Hyderabad land upon receipt of Rs.225 crores in terms of the arrangement recorded by it. The release of the title deeds brought the alleged mortgage to an end.

3.29 The release of the deeds was itself a material development concerning the earlier creation of security and the litigation. However, ZEEL did not disclose the release to the stock exchanges or update the matter on its website.

3.30 The nature and duration of the transaction were subsequently recorded by the Hon'ble Delhi High Court in its order dated March 14, 2022 in ***IHFL v. Gnex Projects Private Limited***. The Court noted that ZEEL was neither a borrower nor a guarantor but had become involved as a mortgagor of its Hyderabad property, which had been offered as security for the loans. The Court further recorded that the mortgage ceased to subsist after IHFL released the title deeds upon receipt of Rs.225 crores.

3.31 The relevant extract of the said order Order No. ARB.A. (COMM.) 8/2022 & I.A. 1648/2022 dated March 14, 2022, in the case of ***IHFL vs. Gnex Projects Private Limited*** wherein ZEEL was one of the respondents (Respondent No.9), stated as follows: -

'*30. Undisputedly, respondent no.9 was neither a borrower nor guarantor to the loans in question. The involvement of the said respondent, as obligor at the subsequent stage, was only to the extent that it was a mortgagor of its Hyderabad property which was offered by the borrowers as security cover. Once, upon receipt of Rs.225 crores by appellant in terms of NOC dated 01.06.2020, title deeds of property of respondent no.9 have been released, the mortgage does not subsist anymore.'*

3.32 SCN relies upon this order dated March 14, 2022 in order to further support the allegation that ZEEL's property had in fact been deployed as security for the liabilities of the borrowing entities and that the original title deeds remained in IHFL's possession from December 27, 2018 until June 1, 2020.

3.33 The SCN alleged that common control and beneficial interest of Noticee No.3, Noticee No.2 and their family members in the borrowing entities was not disclosed to the Board of Directors or the Audit Committee of ZEEL. The non-disclosure allegedly prevented the independent directors and Audit Committee members from examining the transaction, considering the conflict of interest and taking measures to protect ZEEL's property.

3.34 Noticee No.3, having executed the 2018 D&A in the name of ZEEL and having deposited its title deeds with IHFL, was alleged to have failed to act in good faith and in the best interests of ZEEL and its shareholders. His conduct was further alleged to have fallen short of the standards of diligence, care, integrity and ethical conduct required of a director.

3.35 Noticee No.2, as Managing Director and CEO, was alleged to have failed to prevent the misuse of ZEEL's asset, to disclose the transaction to the Board and Audit Committee, to ensure accurate financial reporting and to manage the conflict arising from the alleged promoter-family interest in the borrowing entities.

3.36 The SCN further alleged that the effect of the non-disclosures was to present an incomplete picture of ZEEL's financial position. The financial statements did not reflect that an asset of the company had been deployed to secure third-party liabilities, that the original title deeds were with the lender, that the property was subject to a Court undertaking or that ZEEL was exposed to the consequences of default by the borrowing entities.

3.37 During the investigation, Noticee No.2's statement on oath was recorded on March 5, 2024. He stated that he was unaware of the borrowing entities and of the Hyderabad land having been offered as collateral. He further stated that the management of ZEEL became aware of the matter only upon receipt of the statutory auditor's report dated May 27, 2019. ZEEL reiterated a similar position in its email dated April 10, 2024, submitted on behalf of Noticee No.2 and other directors and officers. It was represented that ZEEL had no knowledge of the mortgage when the relevant financial statements were prepared.

3.38 The SCN alleged that these statements were inconsistent with the promoter-family connection with the borrowing entities, ZEEL's participation in the Delhi High Court proceedings from April 1, 2019, the non-disposal undertaking relating to the Hyderabad land and the management representation letter signed by Noticee No.2 on May 27, 2019. On this basis, the statements made by Noticee No.2 during the investigation were alleged to be false, incorrect and misleading and to constitute a failure to furnish correct information under Sections 11(2), 11C(2) and 11C(3) of the SEBI Act, 1992.

3.39 In view of the above, the following allegations for violations of securities laws have been made:

I. **Alleged *fraudulent scheme***

3.40 It was alleged that Noticee Nos. 2 and 3 devised and implemented a fraudulent scheme for the unauthorised use of ZEEL's immovable property as security for loans availed by the borrowing entities (promoter-related entities). The ultimate beneficiaries of these entities were allegedly the family members of Noticee No.3 and Noticee No.2. The unauthorised deployment of ZEEL's property for securing the borrowings of promoter-related entities was alleged to constitute a deceptive practice resulting in the mis-utilisation and diversion of ZEEL's asset for the benefit of such entities.

3.41 It was further alleged that Noticee No.2, being the MD of ZEEL and having knowledge of the transaction, aided the scheme by failing to prevent the unauthorised use of the asset and by not ensuring its disclosure.

3.42 The alleged scheme also involved the omission or misstatement of the transaction in ZEEL's books of account and financial statements, thereby concealing the unauthorised creation of security over its asset and presenting an incorrect picture of the company's financial affairs to its shareholders and investors.

3.43 Accordingly, it was alleged that Noticee No.3 and Noticee No.2 had violated Sections 12A(a), (b) & (c) of SEBI Act, 1992 and Regulations 3(b), (c), (d), 4(1) & 4(2), (f), (k), (r) of PFUTP Regulations

II. Allegations of failure to obtain prior Audit Committee approval:

A. ZEEL

3.44 It entered into the impugned transaction without obtaining the prior approval of its Audit Committee, as mandated under Regulation 23(2) of the SEBI LODR Regulations.

B. Noticee No.3:

3.45 Noticee No.3, being the Chairman and Non-Executive Director of ZEEL at the relevant time and having executed the 2018 D&A as the authorised signatory of ZEEL, through which the Hyderabad land was pledged in favour of IHFL, was alleged to have caused ZEEL to enter into the impugned related party transaction without obtaining the prior approval of the Audit Committee. Accordingly, he was alleged to have violated Regulation 23(2) of the SEBI LODR Regulations, 2015 read with Section 27(2) of the SEBI Act, 1992.

C. Noticee No.2:

3.46 Being the MD of ZEEL at the relevant time and having knowledge of 2018 D&A, Noticee No.2 was alleged to be liable for ZEEL's failure to obtain prior approval of the Audit Committee before entering into the impugned transaction, thereby allegedly violating Regulation 23(2) of the SEBI LODR Regulations read with Section 27(1) of the SEBI Act, 1992.

III. Failure to disclose 'related *party disclosures*' and '*contingent liability*' in the financial statements/Annual Report as per Accounting Standards: -

3.47 **ZEEL** failed to disclose the alleged related party transactions in its financial statements for FY 2018-19 and the subsequent financial years during which the Hyderabad land remained pledged, in accordance with the applicable accounting standards thereby allegedly violating Regulation 34(3) read with Clause 1 of Part A of Schedule V and Regulation 48 of the SEBI LODR Regulations.

3.48 ZEEL failed to disclose the pledge created over the Hyderabad land as a **contingent liability** in its financial statements for FY 2018-19 to FY 2020-21, despite the asset remaining pledged to secure loans availed by the borrowing entities, allegedly contrary to the requirements of Ind AS 37 and in violation of Regulation 34(3) read with Clause 1 of Part A of Schedule V and Regulation 48 of the SEBI LODR Regulations.

3.49 Since the disclosures by ZEEL in its annual reports, financial statements etc. were not in accordance to the applicable accounting standards, it was alleged that ZEEL failed to abide by the principles governing disclosures and obligations provided under SEBI LODR Regulations. The principles require the information to be prepared and disclosed in accordance with accounting standards and to implement prescribed accounting standards in letter and spirit in the preparation of financial statements and to refrain from misrepresentation and the interest of all stakeholders need to be considered while making the disclosures and preparing and disclosing the information. Accordingly, it was alleged that ZEEL had violated Regulation

4(1)(a),(b),(c),(h),(i), 4(2)(e)(i), 34(3) read with clause 1 of Part A of Schedule V and 48 of SEBI LODR Regulations.

3.50 Being the MD of ZEEL during FY 2018-19 to FY 2020-21, Noticee No.2 is alleged to be liable for ZEEL's failure to prepare and disclose its financial statements in accordance with the applicable accounting standards, including the alleged **non-disclosure of related party transactions and contingent liabilities** arising from the Hyderabad land pledge. Accordingly, he is alleged to have violated Regulations 4(1)(a), (b), (c), (h) and (i), 4(2)(e)(i), 34(3) read with Clause 1 of Part A of Schedule V and Regulation 48 of the SEBI (LODR) Regulations, 2015 read with Section 27(1) of the SEBI Act, 1992.

3.51 Noticee No.3 is alleged to have failed to **disclose his connection** with the borrowing entities to the management of ZEEL and to have pledged the Hyderabad land without obtaining the **requisite approvals** and authorisations from ZEEL. Consequently, he is alleged to be liable for ZEEL's failure to disclose **the related party transactions and contingent liabilities** in accordance with the applicable accounting standards and the SEBI (LODR) Regulations. Accordingly, he is alleged to have violated Regulations 4(1)(a), (b), (c), (h) and (i), 4(2)(e)(i), 34(3) read with Clause 1 of Part A of Schedule V and Regulation 48 of the SEBI (LODR) Regulations, 2015 read with Section 27(2) of the SEBI Act, 1992.

IV. **Failure to disclose material interest and manage conflicts of interest:**

3.52 Noticee No.3 is alleged to have **failed to disclose his interest in the borrowing entities** to the Board of Directors of ZEEL. It is further alleged that, since the family members of Noticee No.3 and Noticee No.2 were the ultimate beneficiaries of the borrowing entities, both failed **to monitor and manage conflicts of interest, prevent misuse of corporate assets and abuse of related party transactions**, **ensure the integrity of ZEEL's accounting and financial reporting systems, and** ensure **compliance with applicable laws**

and standards. It is further alleged that such non-disclosure impeded the independent directors and members of the Audit Committee from effectively discharging their responsibilities. Accordingly, Noticee No.3 is alleged to have violated Regulation 4(2)(f)(i)(1), Regulation 4(2)(f)(ii)(6) and (7), and Regulation 4(2)(f)(iii)(14) of the SEBI (LODR) Regulations, 2015.

3.53 Noticee No.2 is alleged to have failed to disclose to the Board of Directors his material interest in the borrowing entities. It is further alleged that, being an ultimate beneficiary along with the family members of Noticee No.3, **he failed to monitor and** manage **conflicts of interest, prevent misuse of corporate assets and abuse of related party transactions, ensure the integrity of ZEEL's accounting and financial reporting systems, and ensure compliance with applicable laws and standards**. It is further alleged that such non-disclosure impeded the independent directors and Audit Committee members from effectively discharging their responsibilities. Accordingly, he is alleged to have violated Regulation 4(2)(f)(i)(1), Regulation 4(2)(f)(ii)(6) and (7), and Regulation 4(2)(f)(iii)(14) of the SEBI (LODR) Regulations, 2015.

Failure to disclose material developments to the stock exchanges and Failure to host material disclosures on the Company's website:

3.54 ZEEL failed to disclose to the stock exchange material developments relating to the Hyderabad land, namely:

I. the Hyderabad land becoming the subject matter of litigation before the Hon'ble Delhi High Court;

II. submission of a non-disposal undertaking before the Hon'ble Delhi High Court; and

III. release of the title deeds by IHFL on June 1, 2020,

thereby allegedly violating Regulation 30(1), 30(2), 30(6) and 30(7) read with Item 6 of Para A of Part A of Schedule III of the SEBI (LODR) Regulations, 2015.

3.55 ZEEL failed to host on its website the disclosure relating to the alleged fraudulent pledging of the Hyderabad land, which was required to be disclosed as a deemed material event and retained in accordance with Regulation 30(8) read with Item 6 of Para A of Part A of Schedule III of the SEBI LODR Regulations.

3.56 Being the Chairman and Non-Executive Director of ZEEL at the time of creation of the pledge and the subsequent developments, Noticee No.3 is alleged to be liable, along with ZEEL, for the failure to disclose to the stock exchanges the material events relating to the Hyderabad land, including the pendency of proceedings before the Hon'ble Delhi High Court, submission of the non-disposal undertaking by ZEEL and the release of the title deeds by IHFL. Accordingly, he is alleged to have violated Regulation 30(1), 30(2), 30(6), 30(7) and 30(8) read with Item 6 of Para A of Part A of Schedule III of the SEBI LODR Regulations read with Section 27(2) of the SEBI Act, 1992.

3.57 Noticee No.2 is alleged to have been aware of the unauthorised pledge of the Hyderabad land in favour of IHFL on December 27, 2018 and the subsequent material developments. Despite such knowledge, ZEEL allegedly failed to disclose these material events to the stock exchanges and on its website during FY 2018-19 to FY 2020-21. Accordingly, Noticee No.2 is alleged to have violated Regulation 30(1), 30(2), 30(6), 30(7) and 30(8) read with Item 6 of Para A of Part A of Schedule III of the SEBI (LODR) Regulations, 2015 read with Section 27(1) of the SEBI Act, 1992.

Preparation of financial statements not in accordance with applicable accounting standards:

3.58 Since the disclosures made in the annual reports and financial statements were allegedly not in accordance with the applicable accounting standards, **ZEEL** failed to comply with the principles governing disclosures and obligations under the SEBI (LODR) Regulations, 2015, including the obligation to prepare and disclose information in accordance with prescribed accounting standards, to faithfully implement such standards, to refrain from misrepresentation, and to consider the interests of all stakeholders. Accordingly, ZEEL is alleged to have violated Regulations 4(1)(a), (b), (c), (h) and (i), 4(2)(e)(i), 34(3) read with Clause 1 of Part A of Schedule V, and Regulation 48 of the SEBI LODR Regulations.

Failure to discharge fiduciary duties as Chairman and Non-Executive Director:

3.59 **Noticee No.3** is alleged to have failed to act in good faith, with due diligence and due care, and in the best interests of ZEEL and its shareholders while pledging the Hyderabad land on behalf of ZEEL. It is further alleged that he failed to maintain the high standards of integrity and ethical conduct expected of a director and acted in a manner contrary to the interests of the listed entity and its stakeholders. Accordingly, he is alleged to have violated Regulation 4(2)(f)(iii)(3) and Regulation 4(2)(f)(iii)(6) of the SEBI LODR Regulations.

Issuance of incorrect CEO–CFO certification:

3.60 Noticee No.2 is alleged to have signed the CEO–CFO certification under Regulation 17(8) of the SEBI LODR Regulations for FY 2018-19 and FY 2019-20 despite the alleged existence of the unauthorised pledge and the alleged non-compliance with applicable accounting standards, thereby issuing an incorrect, false and misleading certification in violation of Regulation 17(8) of the SEBI LODR Regulations.

Providing false information during investigation:

3.61 During his statement on oath recorded on March 5, 2024, Noticee No.2 stated that he was unaware of the borrowing entities and of the Hyderabad land having been offered as collateral, and that the management of ZEEL became aware of the pledge only through the Independent Auditor's Report dated May 27, 2019. The SCN alleges that these statements were incorrect in view of the alleged ultimate beneficiary interest traced to him and his family members and the participation of ZEEL in the proceedings before the Hon'ble Delhi High Court. Accordingly, by allegedly furnishing incorrect information during the investigation, Noticee No.2 is alleged to have violated Sections 11(2), 11C(2) and 11C(3) of the SEBI Act, 1992.

<u>Service of Show Cause Notice, Inspection of Documents, Reply and Personal Hearing</u>

4. The above allegations were communicated to the Noticees vide a Show Cause Notice dated August 07, 2025 (hereinafter referred to as "**SCN**"). The digitally signed SCN was served to the Noticees through email dated August 07, 2025 and the physical version of the SCN alongwith its annexures were served through Speed Post Acknowledgment Due (SPAD). Both digitally and physically signed SCNs alongwith its annexures were duly delivered to the Noticees.

5. Vide the SCN, the Noticees were called upon to show cause as to why suitable directions, for the violations alleged above, including directions under Sections 11(1), 11(4) and 11B(1) of the SEBI Act, 1992 including any incidental directions thereto, for a prohibition on them for an appropriate period from buying, selling or otherwise dealing in securities market, either directly or indirectly, in any manner whatsoever should not be issued against them. Further, the Noticees were also called upon to show cause why inquiry should not be held against them under rule 4(1) of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 and penalties should not be imposed under Section 15A(b), 15HA and 15HB of SEBI Act, 1992.

6. In response, Noticee No. 1, through its authorised representative ('**AR**'), vide email dated August 15, 2025, sought inspection of the documents and materials that form the basis of the allegations mentioned in the SCN and requested to provide the following documents:

i. Complete Investigation Report together with all annexures, exhibits, working papers, and supporting documents referred to therein.
ii. A copy of the opinion formed under Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, including any internal notes or recommendations on which the decision to issue the SCN was based.
iii. All communications, correspondence, or information exchanges between SEBI and any third party, including stock exchanges, depositories, lenders, or other regulatory/statutory authorities, that are relevant to or relied upon in the issuance of the SCN.
iv. Any correspondence or clarifications sought by SEBI from third parties and the responses thereto, in relation to the subject matter of the SCN.
v. All documents, records, and evidence (including electronic records) forming part of the case file and relied upon in forming the opinion under Rule 3 and/or in framing the allegations in the SCN.
vi. Any internal file notings, minutes of meetings, or approval memos relevant to the issuance of the SCN.

Vide the said email the Noticee also requested extension of 21 working days, post conducting inspection of the documents, for submission of reply of the SCN.

7. Upon considering the above request, the inspection of documents for Noticee No.1 was scheduled on September 04, 2025.

8. Vide email dated August 30, 2025, Noticee No. 3, through his AR, also sought opportunity to conduct a physical inspection of all relevant documents and requested access to the following in particular:

i. Complete file prepared by SEBI in the captioned matter.
ii. All communications between the departments of SEBI, and all internal noting in respect of the present SCN.
iii. Copies of communications with third parties in respect of the SCN, including with stock exchanges and depositories in reference to the captioned matter.
iv. Any other document, information, reports, noting, evidence, complaints, statements, etc. that may have been prepared by or relied upon by SEBI while issuing the SCN.

Vide the said email the Noticee also sought additional time of four weeks, post conducting inspection of the documents, for submission of reply of the SCN.

9. Similarly, vide email dated September 01, 2025, Noticee No.2, through his AR, requested inspection of all the documents relevant to the Notice and the allegations therein, in the interest of equity, justice and fairness, including:

i. Complete Copy of the Investigation Report prepared in the captioned matter.
ii. Annexure E, as the same has not been provided as part of the Annexure pack along with the Notice.
iii. Any additional documents, records, or evidence that SEBI has referred to and/or relied upon to investigate, examine and substantiate the allegations mentioned in the Notice, including but not limited to internal reports, meeting minutes, and third-party communications.

Vide the said email the Noticee also sought additional time of four weeks, post conducting inspection of the documents, for submission of reply of the SCN.

10. Upon considering the above requests of Noticee No. 3 and 2, the inspection of documents for the said Noticees was scheduled on September 9 and 10, 2025, respectively.

11. The ARs of the Noticees visited SEBI Office on the abovementioned dates where all the documents in the instant matter were made available to them for the purpose of inspection and the copies of the documents viz. Investigation Report and its annexures, and other documents as per their requests, were handed over. Thereafter, as per the respective requests of the Noticee, additional time was provided to the Noticees for submitting written reply of the SCN.

12. ZEEL submitted its written reply to the SCN vide email dated September 26, 2025. Noticee No. 3 vide email dated September 26, 2025, sought certain additional documents. The said request of Noticee No.3 was examined and the documents, except which were already provided in the form of annexure to the Investigation Report, the internal communications of SEBI and documents which pertains to unrelated investigation in another matter, were shared with Noticee No. 3 vide email dated November 17, 2025 and two weeks' time was provided for submitting reply to the SCN. Vide email dated December 01, 2025, Noticee No.3 sought additional time of two weeks for submitting written reply of the SCN. The said request was considered and vide email dated December 02, 2025, Noticee No.3 was advised to submit the written reply on or before December 15, 2025. However, vide email dated December 15, 2025, the Noticee sought another extension of

one week for filing written reply. Vide email dated December 16, 2025, Noticee No.3 was advised to file written reply by December 22, 2025. Vide another email dated December 22, 2025, Noticee No. 3 sought another four days' time for submitting written reply. The said request was accepted and vide email dated December 23, 2025, Noticee No. 3 was advised to submit the written reply on or before December 26, 2025. Noticee No. 3 submitted written reply of the SCN vide email dated December 27, 2025.

13. Noticee No.1 and 2 vide email dated October 08, 2025 apprised that they have filed Settlement applications with SEBI. Further, Noticee No. 2 vide the same email also requested additional time till October 17, 2025 for submitting written reply to the SCN which was accepted. Thereafter, Noticee No.2 submitted his reply to the SCN vide email dated October 17, 2025.

14. Upon submissions of the written replies by Noticee No. 1 and 2, the same were considered by the undersigned and vide emails dated November 12, 2025, Hearing Notices were issued to Noticee No. 1 and 2. Vide the said Notices, they were advised to appear for personal hearing on November 24, 2025.

15. However, vide emails dated November 21, 2025, Noticee No. 1 and 2 request to adjourn the personal hearing scheduled on November 24, 2025. The request of the said Noticees were considered and vide emails dated November 24, 2025, the Noticees were informed that the personal hearing is adjourned and the next date shall be communicated in due course. Accordingly, vide emails dated November 26, 2025, Noticee No. 1 and 2 were advised to appear before he undersigned on December 04, 2025 for personal hearing. Vide email dated December 02, 2025, the personal hearing of Noticee No. 2 was adjourned and vide email dated December 08, 2025, the same was rescheduled to December 15, 2025.

16. On December 04, 2025, the personal hearing of Noticee No. 1 was conducted. The AR of the Noticee appeared before the undersigned and reiterated the written submissions dated September 26, 2025. The AR of Noticee No.1 also undertook to submit within seven days, Date of service of pleadings / notice by registry / IHFL

to ZEEL of the Hon’ble Delhi High Court Proceedings, along with proof and the copies of applications submitted by ZEEL to the Hon’ble Delhi High Court, for deletion as a party respondent in the arbitration proceedings.

17. Noticee No. 1 vide email dated December 10, 2025, submitted additional submission alongwith the copy of application filed before the Learned Sole Arbitrator Hon’ble Mr. Justice Badar Durrez Ahmed (Retd.). With respect to the proof of service upon the Company of the pleadings / notice if the proceedings before Hon’ble Delhi High Court, it was submitted that despite efforts the same was not located as the document pertain to events that occurred more than five years ago.

18. Vide email dated December 11, 2025, Noticee No.2 sought adjournment of the personal hearing scheduled on December 15, 2025 citing non-availability of the arguing counsel. The said request was considered and the personal hearing, vide email dated December 11, 2025, was rescheduled to December 23, 2025. On December 23, 2025 the AR of Noticee No.2 appeared and reiterated the written submission dated October 17, 2025 and the brief submission dated December 23, 2025. Further two weeks’ time was sought for filing additional submissions. The same was accepted. The additional submissions were filed by Noticee No. 2 vide email dated January 15, 2026.

19. Upon receipt of the reply of Noticee No.3 and upon considering the same, a Hearing Notice dated January 08, 2026 was issued to the Noticee and the personal hearing was scheduled on February 04, 2025. However, the personal hearing was later adjourned to February 11, 2026 and the same was communicated to Noticee No. 3 vide email dated January 20, 2026.

20. On February 11, 2026, the AR of Noticee No. 3 appeared for personal hearing and made their submissions. During the hearing, the AR of Noticee No.3 sought two weeks’ time for filing additional written submissions and requested another opportunity of personal hearing after submission of additional reply. The request was accepted and the AR was advised to file reply on or before February 25, 2026.

The second hearing was scheduled on March 09, 2026 and the same was informed to the AR of Noticee No.3 during the hearing.

21. The additional submission of Noticee No. 3 was received on March 09, 2026 and the AR of the Noticee appeared for personal hearing on the said date and reiterated the written submissions dated December 27, 2025 and March 09, 2026. Thereafter, the AR sought another four weeks' time to file further written submissions. The same was accepted. The Noticee submitted Supplementary submission dated April 08, 2026 vide email.

22. The settlement application filed by the Noticees were rejected by SEBI and the same was conveyed to the Noticees vide letter dated June 22, 2026. Subsequently, Noticee No. 3, vide email dated June 25, 2026, submitted 'Further Additional Submission'.

Replies of Noticees in brief

23. Some part of essence of the replies are not brought out here as they are directly dealt with in the considerations.

I. ZEEL

Preliminary Submissions

A. The SCN suffers from inexplicable delay and laches

- The events in question in the instant matter relate to December 2018. It is not the case of SEBI that it has become aware of these events after any significant passage of time since it is an admitted position that SEBI was looking into the affairs of the Company since as early as 2019, following the resignation of the independent directors. The issuance of the advisory letter dated June 17, 2021 by SEBI (as detailed in the following paragraphs), which was publicly disclosed by the Company on July 30, 2021, appears to be a direct outcome of the examination being conducted by SEBI. The present SCN has been issued only in August 2025, after an unexplained and unjustifiable lapse of more than five years from the date of the subject events. In the absence of the same, it appears that these proceedings are (at best) nothing more than an afterthought or (at worst) part of an ongoing pogrom against the Company.

- The delay of nearly 1 year between the completion of the investigation on August 26, 2024 (4 months after the eight-month period stipulated in the Confirmatory Order) and, issuance of the SCN nearly a year later on August 7, 2025, is material. Delay in the issuance of the SCN can only be attributed to circumvent the underlying bias writ large on the investigation itself. The unexplained delay coupled with the absence of any additional cogent finding of loss caused to the investors/shareholders in the SCN, only goes to show the insincere and pre-determined manner in which the regulator has issued the SCN.

B. SEBI's investigation is vitiated by bias and prejudice against Noticee No.1

- The investigation was pre-meditated with the intention to ascribe guilt to the Noticees since it was approved by the Hon'ble Whole Time Member ("WTM") Mr. Ashwani Bhatia - who has already been established to have a bias against the Noticee No.1 and its key managerial personnel.

- In complete dilution of this principle of segregation that SEBI appeared to espouse, the instant SCN has been issued by the Ld. Quasi-Judicial Authority ("QJC") who, at the time of the passing of the Confirmatory Order, was working directly under the supervision of the then Chairperson and was posted to the 'Office of the Chairperson' at SEBI. It is therefore not surprising that the biases which existed in the mind of the relevant officials of SEBI at the material time have also invariably percolated into the instant proceedings, rendering the same *non est*.

Submissions on Merits

A. There was no transaction that necessitated Audit Committee approval

- The allegation proceeds on an inaccurate assumption that Noticee No.1 which is a board-controlled entity, knowingly entered into an alleged "related party transaction" without the approval of its Audit Committee. However, according to SEBI's own findings, the alleged mortgage was "unauthorized" and "without the knowledge of the Board of Directors". In the absence of any communication between IHFL and the Company, it is clear that Noticee No.1 was not, in any manner, involved in the alleged creation of any mortgage on the Hyderabad Property.

- Notably, in the shareholding chart set out in the SCN, Noticee No.1 is conspicuously absent. Accordingly, there is no actual, demonstrable linkage between Noticee No.1 and the borrowing entities which are alleged to be related parties of the Company.

- A mortgage by deposit of title deeds exists only if three essential elements are satisfied together: (i) there is a debt; (ii) the title deeds are deposited and (iii) the owner intends the deposit to operate as security for that debt. It is an admitted position that Noticee No.1 was neither a borrower nor a guarantor to IHFL.

Notably, there was no communication from IHFL to Noticee No.1 informing them of creation of charge and/or any filing with the Registrar of Companies.

- The SCN did not adduce any evidence such as board approval and/or board resolutions to show any form of intention on behalf of the Company to create a valid mortgage on the Hyderabad Property. This in fact substantiates the Company's submissions to SEBI that they were never aware of any such mortgage having been created which SEBI has conveniently chosen to ignore.

- the Company could not have been required to obtain the approval of its Audit Committee for something which (i) could never be qualified as a 'transaction'; (ii) which the Company never intended to enter in to and (iii) no active steps as required under law were undertaken by the Company. SEBI has proceeded to charge the Company summarily without taking into account the relevant facts and circumstances.

- Even if one were to assume that there was a transaction that occurred, it cannot be said to have been a "related party transaction" in terms of SEBI LODR Regulations. This is because of SEBI's own interpretation of "related party transaction" as it existed prior to the 2021 amendment of the SEBI LODR, in the matter of Hindenburg Allegations against Adani Group with respect to Transactions with Adicorp Enterprises Private Limited ("Adicorp"), dated September 18, 2025, wherein SEBI has held that only transactions between related parties are sought to be covered under "related party transactions".

- The SCN fails to establish any finding of fraud, prima facie or otherwise, from credible and verifiable channels of communication and/or even by SEBI till date, that the company would be required to disclose. The Notice also fails to show any involvement of the Company in the alleged fraudulent act. In fact, the Notice itself states that the alleged mortgage creation was "unauthorized" and "without the knowledge" of the Company.

- Even assuming that there was a valid mortgage on the Hyderabad Property, the alleged mortgage did not qualify the materiality thresholds as set out in the Company's materiality policy at the relevant time and even as on date. The materiality policy of the Company as in effect in F.Y 2018-2019, provided for disclosures of only those events/omissions/information that is likely to result in discontinuity of publicly available information. To this end, the Company in its annual report for F.Y 2018-2019 had already disclosed that the original title deeds of the Hyderabad Land were not readily available.

B. Noticee No.1 was not required to disclose an alleged transaction that had no material impact on investors

- The SCN proceeds on the premise that the alleged mortgage of the Hyderabad Property constituted a fraudulent act that the Company was obligated to disclose in terms of Regulation 30 of SEBI LODR Regulations. This is entirely untenable because SEBI's claim is that the Company should have disclosed a fraudulent event before first establishing that there was a fraudulent act to begin with. There was no finding of fraud, prima facie or otherwise, by SEBI or by any other authority to trigger a disclosure obligation for Noticee No.1.

- The alleged transaction never occurred and hence, there was no disclosure required to be made by the Company. This is also clear from the Management Representation Letter dated May 27, 2019, where it has been categorically stated that the Company did not have ready possession of the original title deeds of the Hyderabad Land.

C. The Company was in compliance with all applicable Accounting Standards at the relevant time

- Without prejudice to the contention that there was no valid mortgage and therefore no transaction as set out above, it is abundantly clear that there was no charge that was created and/or registered in the Company's name. There was no entry in the Register of Charges and/or no filing with the Registrar of Companies. IndAS-37 states that the contingent liability is a possible obligation arising based on past events. there being no evidence to suggest a valid, first-ranking charge on the Hyderabad Land and accordingly, there was no / remote possibility of financial loss to be caused to the Company that would necessitate any disclosure in terms of IndAS-37.

- Therefore, there was no transfer of resources, services, or obligations by the Company. The chain of events did not mature into an encumbrance or any other liability upon the Company. A temporary inability to locate or external custody of title documents, without authorised corporate intent and without perfection of any charge and accordingly does not warrant any contingent liability disclosure as per IndAS-37.

- Even assuming that there was a valid mortgage on the Hyderabad Land, the alleged mortgage did not qualify the materiality thresholds as set out in the Company's materiality policy at the relevant time and even as on date. The materiality policy of the Company as in effect in F.Y 2018-2019, provided for disclosures of only those events/omissions/information that is likely to result in discontinuity of publicly available information. To this end, the Company in its annual report for F.Y 2018-2019 had already disclosed that the original title deeds of the Hyderabad property were not readily available.

- It is also relevant to consider that the Company's legal function was undergoing a transition during the relevant period. The person who was dealing with the legal matters concerning IHFL had joined the Company in February 2019 and may not have been aware of the procedures and best practices to keep the management abreast with the pleadings. While there were no perceptible gaps with respect to the conduct of the Company, the precise flow of information from the legal department to the Company's management team was affected. To address this, adequate actions were taken by the Company to ensure stricter compliance and controls, including having put in place a dedicated key resource to take care of the legal affairs of the Company.

D. Noticee No.1 was in compliance with all applicable accounting standards at the relevant time

- Since there was no valid mortgage nor any act or intention to put up collateral i.e., there was no 'transaction', accordingly there was no "related party transaction" that warranted disclosure.

- it is abundantly clear that there was no charge that was created and/or registered in the Company's name. There was no entry in the Register of Charges and/or no filing with the Registrar of Companies. IndAS-37 states that the contingent liability is a possible obligation arising based on past events, there has been no such "past event" which has been established on account of aforesaid grounds. Accordingly, as per IND 37, there was no contingent liability created as there was neither a possible obligation created nor there was a present obligation arising from past event which shall result in an possible outflow of resources embodying economic and hence no disclosure as per IND-37 warranted.

- The title deeds in contention were eventually retrieved by the Company in 2020. Therefore, there was no transfer of resources, services, or obligations by the Company. The chain of events did not mature into an encumbrance or any other liability upon the Company. A temporary inability to locate or external custody of title documents, without authorised corporate intent and without perfection of any charge and accordingly does not warrant any contingent liability disclosure as per IndAS-37.

II. <u>Noticee No.2</u>

Preliminary Submissions

A. The SCN is bereft of details and specificity

- It was submitted that, firstly, the SCN failed to set out how, in what manner and through what act and/or omission did the Noticee No.2 participate in the alleged creation of mortgage over the Hyderabad Property. Secondly, the SCN did not adduce any evidence, circumstantial or otherwise, to show that Noticee No.2 had any knowledge of the creation of the alleged mortgage. It plainly imputes knowledge to Noticee No.2 by holding that he allegedly made wrong and incorrect representations in - (i) the CEO-CFO Certification and (ii) Management Representation Letter. Therefore, SEBI relies on a conclusion of wrongdoing i.e., the representations, to prove the wrongdoing itself. Thirdly, the SCN made an assertion that the ultimate beneficiaries of the borrowing entities are Noticee No. 2 and 3 and their family members without showing what "benefit", if at all, has accrued to these persons as a result of the alleged transaction.

B. The SCN is vitiated by inordinate delay and laches

- The SCN was issued after an elapse of 7 years from the date of the alleged Declaration i.e., December 27, 2018. Despite the unavailability of original title deeds having been disclosed as in the Annual Report for F.Y April 2018 to March 2019, and the same being available in public domain, SEBI has chosen to issue the Notice only in August 2025 after a delay of 6 years. Not only has this adversely impacted Noticee No.2's ability to respond to the allegations adequately, but it has also resulted in grave prejudice and handicapped Noticee No.2 from producing reliable exculpatory material to defend his case.

C. The investigation is vitiated by Bias and Prejudice

- Upon inspection of the Investigation Report and Office Note dated August 26, 2024, it had come to attention that the investigation was approved by the Whole Time Member ("WTM") Mr. Ashwani Bhatia. Specifically, by an order dated June 9, 2023, SEBI appointed the Deputy General Manager ("DGM") as the Investigating Authority to investigate the business transactions of the Company. The Investigating Authority on August 26, 2024 placed the detailed Investigation Report along with its annexures before the Hon'ble WTM for approval and action. The said WTM been established to have a bias against the Company and Noticee No.2 and 3 because of past conduct. Accordingly, it was submitted that the investigation itself is prejudiced and biased against Noticee No.2 and to that extent, the Notice deserves to be set aside in its entirety.

- The instant SCN was issued by a Quasi-Judicial Authority ("QJC") who, at the time the Confirmatory Order was passed, worked directly under the supervision of the then Chairperson (the WTM) in the ‘Office of the Chairperson.’ The QJC therefore, directly reported to the Hon'ble WTM. This close professional relationship raises concerns that biases from earlier officials have inevitably carried over into the current proceedings. The SCN has been issued with the pre-determined objective of declaring the Noticees guilty. On these grounds alone, the SCN deserves to be set aside.

Submissions on Merits

A. There was no transaction that required approval of the audit committee

1. The SCN proceeds on the incorrect assumption that a valid mortgage was created on the Hyderabad Land

- The allegation proceeds on an inaccurate assumption that Noticee No.1 which is a board-controlled entity, knowingly entered into an alleged "related party transaction" without the approval of its Audit Committee. However, according to SEBI's own findings, the alleged mortgage was "unauthorized" and "without the knowledge of the Board of Directors". The SCN contradicts itself in as much as it holds the Company liable to enter into a "related party transaction" without approval while acknowledging that it was never aware of the alleged transaction.

- Given that approval by the Audit Committee is an ex-ante control that applies before the company enters into its own transaction; a company cannot seek prior approval for something it neither authorised nor even knew about when it allegedly occurred. Therefore, it is clear that there was no mortgage created on the Hyderabad Property and hence no "related party transaction" that required disclosure in terms of SEBI LODR Regulations.

- If the Company were to create any interest or lien on the Hyderabad Property it would have to follow certain processes *inter alia* including – (i) obtaining requisite approval from the Board of Directors; (ii) executing and registering a valid mortgage deed in favour of the mortgagee (in this case – IHFL) and (iii) registering the charge under Section 77 of the Companies Act, 2013 in the Register of Charges. However, SEBI has not shown any of these acts to have occurred thereby failing to show the creation of a valid mortgage in favour of IHFL. Thirdly, the rightful ownership and possession of the Hyderabad Property vested entirely and only with the Company at all points in time.

- SEBI also fails to show how a Non-Executive Director (Noticee No. 3) could unilaterally alienate company property and pass on a better right than what vests in him i.e., possession of the Hyderabad Property to IHFL, that too without any authorization from the Company and/or its authorized representatives.

- SEBI also ignored the fact that there is not a single document, correspondence and/or positive action taken by the Company to demonstrate that it intended to create a mortgage on the Hyderabad Property in favour of IHFL at any point of time.

- It is trite law that intention is the pre-requisite to create a valid mortgage by deposit of title deeds and whether intention exists is a question of law and fact as held by the Hon'ble Supreme Court in the case of ***K.J. Nathan v. S.V. Maruthi Rao, AIR 1965 SC 430.***

- The SCN failed to show that there was in fact, any transaction that occurred between the Company and/or its authorized representatives with IHFL. SEBI's whole case rests on a single document i.e., 2018 D&A, which it has not bothered to analyse and comprehend against the nature of rights and obligations it purports to create. SEBI also categorically fails to prove any intention on behalf of the Company to create a mortgage on the Hyderabad Land. It is submitted that in the absence of this fundamental requirement, there is no transaction i.e., there was no mortgage on the Hyderabad Land. Consequently, it follows that the Company and also its MD& CEO, Noticee No.2, did not have any knowledge of the alleged transaction which never occurred.

2. Noticee No.2 had no knowledge of the alleged transaction

- The SCN does not have a single factual instance and/or legal inference to show that Noticee No.2 had any knowledge of the alleged encumbrance at the time of its creation, if at all. It is SEBI's case that Noticee No.2 should have been aware of the alleged mortgage by virtue of being the MD & CEO of the Company. However, as set out above, there was never a transaction between the Company and IHFL to create any mortgage on the Hyderabad Property. As such, the Company cannot have said to have been aware of the creation of the alleged encumbrance and consequently, no knowledge can be imputed to Noticee No.2 by the sheer virtue of him being CEO & MD of the company.

B. Noticee No.2 cannot be held liable under Section 27 of the SEBI Act

- It is SEBI's case that the alleged mortgage was created on the basis of a single document i.e., the Declaration dated December 27, 2018. If that be the case, for the sake of argument, Section 27 of the SEBI Act, 1992, as it existed prior to the amendment made by the Finance Act, 2018 w.e.f. March 08, 2019, will have to be considered.

- The term "offence" as it existed in Section 27 of the SEBI Act, 1992, prior to the amendment, relates to criminal proceedings and did not include within its ambit "civil penalties". Even otherwise, infractions under the LODR Regulations, if any, cannot be said to be "criminal" in nature and therefore, there is no question of holding Noticee No.2 liable under Section 27 of the SEBI Act, 1992 (as it existed prior to the amendment) for alleged violation of SEBI LODR Regulations. For this, reference is drawn to the decision of the Hon'ble SAT in the case of ***Reliance Industries Limited v. Securities and Exchange Board of India*** *(2024) 179 CLA 195.*

- Even assuming that SEBI seeks to invoke Section 27(2) of the SEBI Act, 1992, as it exists post the amendment, in the absence of demonstrable and constructive knowledge of the alleged mortgage creation and/or incontrovertible evidence of Noticee No.2's active participation in an alleged "scheme" to encumber the Hyderabad Property of the Company, Noticee No. 2 cannot be held liable for any contravention by the Company.

- The SCN fails to bring out a single instance to show any active involvement, connivance, consent and/or neglect in the performance of his duties by Noticee No.2 to substantiate its case. In doing so, SEBI has unfairly shifted the burden of proof on Noticee No.2 such that Noticee No.2 is forced to demonstrate a negative assertion i.e., that he had no knowledge of the alleged mortgage transaction. In this regard, it is submitted that – (i) the Declaration dated December 27, 2018 does not have any reference to Noticee No.2; (ii) Noticee No.2 had no interactions/communications/correspondence with either IHFL, the borrowing entities and/or Noticee No.3 in relation to the issues forming subject matter of the present Notice; (iii) Noticee No.2 has not met with and/or interacted with any persons from IHFL during the relevant period in connection with issues forming subject matter of the present Notice and (iv) Noticee No.2 has not benefitted in any manner, monetarily or otherwise, from the alleged transaction and there is no evidence adduced in the Notice of any such benefit.

3. **Borrowing Parties are not "Related Parties" to the Company and/or Noticee No.2**

- The SCN plainly declares that Noticee No.2 and his family members are the "***ultimate beneficiaries***" of the borrowing entities without actually establishing any relationship between Noticee No.2 and the entities, in law or in fact. SEBI has also not adduced any evidence to show that Noticee No.2 had any economic interest in terms of salary drawn, dividend received or any forensic trail of money, in the borrowing entities. Noticee No.2 has therefore never derived any benefit whatsoever from the borrowing entities. Further, Noticee No.2 does not hold any managerial positions such as directorship on the board of the borrowing entities either. In the absence of any averment and evidence to show this, a plain declaration that Noticee No.2 is the "*ultimate beneficiary*" of the borrowing entities is entirely meaningless.

- It does not bother to show any other aspect such as management rights or voting patterns to show any connection between the borrowing entities and Noticee No.2. Even with respect to the shareholding, SEBI has lifted corporate veils *en-masse* of multiple entities, without justifying the grounds for lifting of the corporate veil for each entity. SEBI has failed to establish grounds for lifting the veil in the present case and the same is not in accordance with settled law. Pertinently, the Hon'ble Supreme Court in the matter of ***Balwant Rai Saluja and Anr. v. Air India Limited and Ors.***, (2014) 9 SCC 407.

- If SEBI's diagrammatic representation is taken at face value, Noticee No.2 purportedly indirectly holds less than 1% shareholding in the borrowing entities jointly with his mother, through five layers of holdings. By no stretch of imagination can this be considered to be '*control*' over the borrowing entities to influence any decision making including the end use of funds borrowed by these entities from a third party. SEBI does not satisfy its case on this ground.

4. **SEBI has failed to discharge the Burden to Proof that there was a "Related Party Transaction"**

- For a "related party transaction" to occur, there must first be a transaction. In this case, no transaction took place because the Company did not create a valid mortgage on the Hyderabad Land. There is no proof of any loss to the Company or its investors, and that the Company had no financial relationship with the four borrowing entities. Evidence gathered during SEBI's own investigation confirms that the Company never intended to, nor took the necessary steps to, create a mortgage on its Hyderabad Land. Consequently, the Company was not required to seek approval from its Audit Committee for an event that was not a 'transaction,' was never intended, and for which no legal steps were taken. SEBI's charge is summary and ignores these crucial facts.

- Even assuming a transaction did occur, it would not qualify as a "related party transaction" under SEBI's own prior interpretation of the SEBI LODR Regulations (before the 2021 amendment). In the matter of Hindenburg Allegations against Adani Group with respect to Transactions with Adicorp Enterprises Private Limited ("***Adicorp***"), dated September 18, 2025, concerning the Hindenburg allegations against the Adani Group, SEBI held that the definition only covered transactions between related parties.

C. There was no "Event" or "Material Event" that required disclosure and Noticee No.2 cannot be held liable for the same

- The SCN fails to establish any finding of fraud, prima facie or otherwise, from credible and verifiable channels of communication and/or even by SEBI till date, that the company would be required to disclose. The Notice also fails to show any involvement of the Company in the alleged fraudulent act. In fact, the Notice itself states that the alleged mortgage creation was "unauthorized" and "without the knowledge" of the Company.

- Even assuming that there was a valid mortgage on the Hyderabad Property, the alleged mortgage did not qualify the materiality thresholds as set out in the Company's materiality policy at the relevant time and even as on date. The materiality policy of the Company as in effect in F.Y 2018-2019, provided for disclosures of only those events/omissions/information that is likely to result in discontinuity of publicly available information. To this end, the Company in its annual report for F.Y 2018-2019 had already disclosed that the original title deeds of the Hyderabad Land were not readily available.

D. The Company was in compliance with all applicable Accounting Standards at the relevant time

- Without prejudice to the contention that there was no valid mortgage and therefore no transaction as set out above, it is abundantly clear that there was no charge that was created and/or registered in the Company’s name. There was no entry in the Register of Charges and/or no filing with the Registrar of Companies. IndAS-37 states that the contingent liability is a possible obligation arising based on past events. there being no evidence to suggest a valid, first-ranking charge on the Hyderabad Land and accordingly, there was no / remote possibility of financial loss to be caused to the Company that would necessitate any disclosure in terms of IndAS-37.

- Therefore, there was no transfer of resources, services, or obligations by the Company. The chain of events did not mature into an encumbrance or any other liability upon the Company. A temporary inability to locate or external custody of title documents, without authorised corporate intent and without perfection of any charge and accordingly does not warrant any contingent liability disclosure as per IndAS-37.

E. Noticee No.2 did not commit any fraudulent act and cannot be held liable under SEBI PFUTP

- SEBI claims that Noticee No.2 and 3 devised a "fraudulent" scheme to mortgage the Company's immovable asset without authorisation. However, once again, SEBI does not adduce any evidence to show a 'meeting of the minds' in this regard. It proceeds on the contrived notion that Noticee No.2 was somehow a party to the Declaration dated December 27, 2018, and attributes knowledge to Noticee No.2 solely on account of familial relationship between Noticee No.2 and Noticee No.3. This is even more untenable given the fact that case against Noticee No.2 proceeds on the presumption that he was aware of the alleged transaction.

- Regulation 3 and 4 of the PFUTP Regulations lay down the essential ingredients that constitute a violation of the PFUTP Regulations which are manipulative, fraudulent and unfair trade practices in relation to dealings in securities or which affect the price of a scrip. No material has been provided in the SCN pertaining to dealing in securities or inducement to deal in securities or impact on price or volume, etc. under PFUTP Regulations.

F. Noticee No.2 did not impede the functioning of the independent directors of the company in any manner

- Since it is clear that Noticee No.2 was not an 'ultimate beneficiary' or otherwise had any material interest in the borrowing entities, the allegation that he impeded or impaired the functioning of the Board of Directors does not arise. The Board and its committees continued to operate on the basis of accurate information placed before them and discharged their roles independently in accordance with law. In the absence of any substantiated interest requiring disclosure, there was no occasion for Noticee No.2 to withhold information, and therefore no basis to conclude that the functioning of the Board was in any manner affected.

G. Noticee No.2 has always given a true and correct representation of the financials of the company including in the CEO-CFO certification

- The CEO-CFO certification is an acknowledgement of facts and events that are to the "best of the knowledge and belief" of the CEO and CFO. As stated above, there was no transaction i.e., no mortgage created on the Hyderabad Land by the Company. There is no board approval, no board minutes, no material on record to demonstrate that the Company intended to create a mortgage on the Hyderabad Land nor was any charge created or registered with the Registrar of Companies.

- Even the Independent Auditor's Report for F.Y 2018-2019 opined that the financial statements of the Company give the information required by the Companies Act, 2013 in the manner required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under Section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules, 2015, as amended.

H. Noticee No.2 at all times provided true and accurate information to SEBI during the course of the investigation

- In order for this allegation to succeed, SEBI is first required to uncontrovertibly demonstrate that – (i) there was in fact a valid mortgage created by the Company on the Hyderabad Property in favour of IHFL; (ii) Noticee No.2 was the ultimate beneficiary of the borrowing entities and the alleged transaction and (iii) that he had some means of having prior and separate knowledge of the alleged mortgage. SEBI has not proved any of these. All of the above are contested facts in the instant proceedings which are presently pending and therefore cannot be said to be uncontroverted facts that Noticee No.2 has misrepresented. SEBI is effectively attempting to declare Noticee No.2 guilty for misrepresenting a contested fact for which the statutory authority will sit in judgement.

III. <u>Noticee No.3</u>

<u>Preliminary Submissions</u>

A. Prejudice caused due to delay

- It was submitted that all agreements, transactions, and obligations arising from the said events have been fully concluded, duly disclosed by ZEEL to its shareholders, and resolved several years ago, long before the present investigation was initiated. Thus, it is submitted, the nature of this matter has become academic in nature and there are no practical consequences of pursuing and investigating the matter at hand.

- The perusal of the approval chart dated August 30, 2024, as shared by SEBI, the investigation in the present matter was concluded on August 30, 2024, and SEBI took almost twelve months to issue the SCN. The SCN merely reiterates the findings of the investigation report ("IR"). Such delay reflects that SEBI acknowledges the fact that the underlying issue is merely academic in nature and has no relevance. This aforementioned delay in initiating the present proceedings has caused immense prejudice to the Noticee.

B. The SCN suffers from contradictions and lack of jurisdiction

- The SCN is blatantly contradictory in nature. On one hand, the SCN alleges that the alleged execution of the D&A had resulted in a pledge being created on the Hyderabad Land for the purposes of securing the Loan Agreements of the promoter entities, thus warranting the required disclosures by ZEEL. On the other hand, the SCN states that the alleged creation of pledge was an unauthorised act and that ZEEL never gave approval or ratification for the Noticee to execute the same.

- As per the Contract Act, for the pledge to be legally enforceable, it should have been approved/ratified/authorised by the board of directors of ZEEL, which in the present case, is admittedly missing. Therefore, there was no legal validity to the 2018 D&A. SEBI then, in the same breath, cannot contradict its own assertion by wrongly claiming that such unauthorised pledge was valid and required disclosure.

- SEBI has issued the SCN with respect to an alleged transaction (i.e. 2018 D&A) which was neither enforceable nor binding upon ZEEL and could not have created any liability on ZEEL, and thus, there could never have been any violation of the provisions of SEBI Act or any rule or regulations thereunder.

Submission on Merits

A. The 2018 D&A was a legally unenforceable document and was bereft with legal and procedural defects.

- On a bare perusal of the 2018 D&A, the Noticee had made the following observations:
    i. The stamp paper annexed to the alleged 2018 D&A appears to have been procured by the Lender (and not by the Noticee or ZEEL) in Hyderabad, Telangana on December 27, 2018;
    ii. The 2018 D&A suggests that the Noticee has allegedly visited the offices of the Lender in Hyderabad, executed the 2018 D&A, and handed over the title documents to the representative of the Lender, i.e., Sunil Chitoor, in the presence of the witness to the 2018 D&A, i.e., Himanshu Bansal, who is based out of Gurgaon, Haryana;
    iii. The alleged 2018 D&A reflects the name of one Mr. Dinesh Kanodia as the point of contact for ZEEL;
    iv. The alleged 2018 D&A did not name any person as the authorised representative of ZEEL; and
    v. The alleged 2018 D&A suggests that it has been signed by the Noticee.

- It was submitted that the Noticee does not remember signing or executing the 2018 D&A and denies that a mortgage was ever created by the D&A. The Noticee does not recall when and where he signed the 2018 D&A. As the Noticee had already furnished the Personal Guarantee, according to him, he had given whatever he personally held as security to the Lender.

- The Noticee had already furnished the Personal Guarantee in favour of the Lender, he was under bona fide belief that he could not give any additional comfort to the Lender by signing any additional documents, including the 2018 D&A. Further, the Noticee never had any reason to believe that the signing of any additional documents beyond the Personal Guarantee could have even remotely created any direct or indirect legal obligation on ZEEL or any of its assets.

- Signing of any additional document sans authorisation/intention to create security, pursuant to him already having given the Personal Guarantee could have amounted to only a paper formality and without any legal validity.

- The Noticee never travelled to Hyderabad to execute the 2018 D&A or met any mentioned persons, as is presented in the 2018 D&A and seeks to cross-examine the persons mentioned in the 2018 D&A.

- The Noticee neither had the custody nor had any authorisation to maintain the custody of the title documents of ZEEL's assets, including Hyderabad Land and therefore could not have parted with the documents.

- The alleged security interest on the Hyderabad Land was neither registered with the Registrar of Companies, as mandated in the Companies Act, 2013 and the Sub-Registrar of Assurances, as mandated in the Registration Act, 1908 nor did the Lender make attempts for any such registrations suo moto without requiring cooperation from the Noticee and/or ZEEL during the Relevant Period.

- The CERSAI filings which are unilateral filings made by the Lender in the usual course were, in fact, made by the Lender only in May, 2020, a month before releasing the title documents;

- Upon perusal of the pleadings before the Hon'ble Delhi High Court in ***Indiabulls Housing Finance Ltd. v Dr. Subhash Chandra*** [O.M.P. (I) COMM. No. 95 of 2019], it is evident that the Lender was also aware that no pledge existed and that is why it sought relief from the Hon'ble Delhi High Court, both in respect of perfecting the mortgage and in restraining ZEEL from altering the legal status of the Hyderabad Land. In this regard, the Noticee craves leave to refer to the pleadings in the abovementioned proceedings.

- The alleged 2018 D&A and the alleged transaction therein were bereft with legal defects and were void ab initio. The 2018 D&A has not caused any loss or harm to ZEEL or any of its stakeholders. Further, the Noticee has not profited or made any unlawful gains from the 2018 D&A No mortgage, pledge, or any other obligation whatsoever was created on the Hyderabad Land and ZEEL always enjoyed the physical possession of the same.

- The stark differences in the procedure and steps followed in executing the 2018 D&A when compared to the procedure followed in the 2017 D&A., especially but not limited to the (lack of) execution of a memorandum of entry, clearly indicates that the Lender was well aware of the nature of the 2018 D&A being that of a mere paper formality.

- ZEEL never authorized a mortgage on the Hyderabad Land, and the Lender's own statements – as relied upon in the SCN – confirm a total absence of communication regarding the alleged security. Given these stark factual contradictions, the Noticee seeks to cross-examine the persons mentioned in the 2018 D&A, i.e., Mr. Sunil Chitoor and Mr. Himanshu Bansal, to demonstrate that no such valid transaction ever occurred.

B. On Related Party Transactions

- SCN commits a fundamental error by conflating two legally distinct concepts, namely, "related party" on the one hand, and "related party transaction" ("RPT") on the other and proceeding as though they are interchangeable. This conflation is evident from the language employed in paragraphs 13 and 14 of the SCN, where SEBI appears to proceed on the assumption that the mere identification of a "related party" is sufficient to classify a transaction as a "related party transaction". This approach is legally impermissible and results in an overbroad application of the RPT framework.

- Even assuming, without admitting, that the Noticee and/or the Borrowing Entities are "related parties" of ZEEL, it does not follow that every transaction which may, however indirectly, confer some benefit upon them constitutes a "related party transaction" as defined under the LODR Regulations as they stood prior to the SEBI (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021.

- It was submitted that the definition of "related party transaction" is given under Regulation 2(1)(zc) of the SEBI LODR Regulations. The definition was amended in 2021 in order to include transactions which are entered into between a listed entity or any of its subsidiaries and any other person or entity and which are for the purpose and effect of benefitting a related party to the listed entity. Further, this amendment was only brought into effect from April 1, 2023. 2018 D&A can be considered as being executed for the purpose and effect of benefitting the Borrowers, such a transaction still does not fall within the definition which existed prior to the amendment introduced in 2021 since transactions for the purpose and effect of benefitting a related party were considered as related party transactions only after April 1, 2023.

- The purported 'transfer of resources or obligations' in the present case, at best be said to be between ZEEL and the Lender i.e. the Lender purportedly has acquired certain rights under the 2018 D&A in relation to the Hyderabad Land. Admittedly, neither ZEEL nor the Lender are 'related parties' and therefore the question of there being any related party transaction does not arise.

- In furtherance of the submissions made in the Reply and the reliance placed on the Final Order in the matter of Hindenburg Allegations against Adani Group with respect to transactions with Adicorp Enterprises Private Limited dated 18 September 2025 ("Adani Order"), it is submitted that the Adani Order is directly on point and provides authoritative guidance on the issues raised in the present SCN. In that matter, SEBI examined whether transactions between a listed entity and an unrelated third party (Adicorp), which allegedly benefited related parties, constituted "related party transactions" under the regulatory framework prior to the 2021 Amendment.

- SEBI held that the "ultimate benefit" concept was introduced only by the 2021 Amendment to the LODR Regulations, which was given deferred prospective effect from 1 April 2023, and that this concept "did not form part of the law" during the relevant period.

- The Adani Order held that, on a plain reading of the then Listing Agreement and LODR Regulations as they existed prior to the 2021 Amendment, only direct transactions between a listed entity and a related party were covered within the definition of "related party transactions". Accordingly, transactions with an unrelated third party-even where such transactions allegedly benefited a related party-did not fall within the pre-amendment definition.

- The definition of RPT under the pre-amendment SEBI LODR Regulations and Ind-AS 24 requires a "transfer of resources, services, or obligations between" the reporting entity and the related party. The proposition "between" necessarily implies a bilateral relationship with direct flow of resources. A transfer to a third party (who is not a related party) cannot satisfy this requirement, regardless of whether a related party derives some indirect benefit.

- There is no allegation of "colourable device" or "sham". ZEEL retained possession of the Hyderabad Land throughout, subsequently sold it at a profit, and there was no diversion of funds, no loss to ZEEL or its shareholders, and no siphoning off of money. If SEBI declined to invoke the doctrine in Adani Order on far stronger facts, a fortiori the doctrine cannot be invoked here.

- SEBI stated: "The intention of the regulation making authority appears to be clear that past transactions between a listed entity/any of its subsidiary and unrelated entity was not sought to be covered in the increased scope of the definition." Further: "Any interpretation to the effect that this amendment also applies to past transaction would be a wrong and incorrect interpretation." This finding precludes SEBI from applying the "ultimate benefit" concept to the 2018 D&A.

- The essential ingredients for the application of the "substance over form" doctrine include:
  (a) a deliberate structuring of the transaction in a particular form;
  (b) an intent to achieve a result different from what the form suggests; and
  (c) an attempt to circumvent regulatory requirements.

  These are missing in the instant matter.

- The SCN attempts to apply the amended definition of “related party transaction” with retrospective application, which it clearly cannot do. In this regard, the aforementioned Final Order squarely applies to the present proceedings, and thus, no related party transaction can be said to have been occurred.

C. The PFUTP Regulations require inducement to deal in securities, which is absent in the present case

- Reliance is placed on the judgment of the Hon'ble Supreme Court in ***SEBI vs. Kanaiyalal Baldevbhai Patel***, (2017) 15 SCC 1, which established that the PFUTP Regulations require a connection between the alleged fraudulent conduct and an inducement to deal in securities and that such inducement is an essential ingredient of fraud under the PFUTP Regulations.

- The Hyderabad Land was in ZEEL's physical possession throughout the relevant period. At no point was ZEEL dispossessed of the property or deprived of its use and enjoyment. The property remained on ZEEL's books as an asset, and ZEEL continued to exercise all incidents of ownership over it.

- The judgment of ***Reliance Industries Ltd. v. SEBI*** *(2026 INSC 585 | Civil Appeal No. 4015 of 2020 | Decided: 29 May 2026),* held that the PFUTP provisions cannot be attracted unless the respondent authority can demonstrate the impugned conduct was such that there could be no other explanation but that of fraud.

- The Noticee acted under a bona fide belief that the 2018 D&A was a mere paper formality that could not create a legal obligation on ZEEL. Motive and suspicion alone cannot be a ground for fraud. A mere non regulatory compliance does not constitute fraud.

24. From the above, I note that the SCN was duly served to the Noticees and sufficient time was provided to submit their replies. Further, an opportunity of inspection of documents and personal hearing was also given to the Noticees, which was availed by them.

<u>ISSUES FOR CONSIDERATION</u>

25. On a perusal of the observations and allegations brought out in the SCN, the replies filed by the Noticees, oral/written submissions and other material available on record, the following issues arise for consideration in the present proceedings:

I. ***Whether Noticee No.2 and 3, as alleged in the SCN, devised a fraudulent scheme to pledge ZEEL's immovable asset (Hyderabad land) without authorisation to secure loans benefitting the borrowing entities, wherein the family members of Noticee No.3 and Noticee No.2 were the ultimate beneficiaries?***
II. ***Whether Noticee No. 1 entered into related party transaction without prior approval of Audit Committee and hence violated Regulation 23(2) of LODR Regulations and whether Noticee No. 2 and 3 are also liable along with the company for the said violation?***
III. ***Whether Noticee No.1 failed to comply with Ind-AS 24 and 37 in preparation and presentation of Financial Statements for the FY 2018-19 and 2019-20, as alleged in the SCN, and whether Noticee No. 2 and 3 are also liable along with the company for the said violation?***
IV. ***Whether the Noticee No. 2 and 3 impeded the independent directors and Audit Committee members from effectively discharging their responsibilities in violation of regulatory requirement due to alleged non-disclosure of material interest of the Noticee No. 2 and 3?***
V. ***Whether Noticee No. 2 and 3 breached the fiduciary duties of a director of the company and failed to monitor and manage conflicts of interest, prevent misuse of corporate assets and abuse of related party transactions, ensure the integrity of ZEEL's accounting and financial reporting systems, and ensure compliance with applicable laws and standards?***
VI. ***Whether incorrect information was furnished during the SEBI investigation by Noticee No. 2?***
VII. ***Whether the Noticees failed to disclose the fraudulent unauthorised pledge and the subsequent material developments, as alleged in the SCN, and whether Noticee No. 2 and 3 are also liable along with the company for the said violation?***
VIII. ***Whether Noticee No.2 signed incorrect, false and misleading CEO-CFO certification for FY 2018-19 and 2019-20?***

IX. ***Whether Noticee No. 3, at the time of pledging Hyderabad land with IHFL on behalf of ZEEL, did not act in good faith, with due diligence and care and in the best interest of ZEEL and its shareholders and failed to maintain high ethical standards expected from a director as such act was not in the best interest of stakeholders including the listed entity itself and its shareholders?***

X. ***If the above issues are determined in the affirmative what directions, if any, including the amount of monetary penalty, is required to be imposed on the Noticee(s)?***

26. Before proceeding to examine the instant matter on merits, I shall address the preliminary contentions raised by the Noticees as they seek to drop the instant proceedings without going into merits.

27. The Noticees in their separate replies had argued that there was an inexplicable delay in initiating action by SEBI in the instant matter which has rendered the present proceedings infructuous and has caused them prejudice. There distinct arguments on this contention are provided below.

- **<u>The SCN suffers from inexplicable delay and laches (Noticee No.1)</u>**

28. It was contended that the events in question in the instant matter relate to December 2018. The material which SEBI appears to have relied upon for the issuance of the present SCN, including and especially those with respect to the so-called ‘mortgage’ and the Delhi High Court proceedings, have always been matters of public record. The fact of unavailability of the original title deeds was adequately disclosed in the Company's Annual Report for F.Y 2018-19 as observed in the SCN itself. Despite this, SEBI has chosen to take action against the Company after an *inexplicable delay of nearly 6 years*.

29. Further it was argued that, the instant SCN is conspicuously silent on what material was required to be unearthed for the present case to be made out. The present SCN has been issued only in August 2025, after an unexplained and

unjustifiable lapse of more than five years from the date of the subject events. In the absence of the same, it appears that these proceedings are (at best) nothing more than an afterthought or (at worst) part of an ongoing pogrom against the Company.

30. Additionally, it was submitted that such delayed action, despite the issues being already addressed, undermines the very interests of public shareholders whom SEBI is mandated to protect, and runs contrary to the principles of fairness, certainty and finality that are required in regulatory proceedings.

31. It was also submitted that the delay of nearly 1 year between the completion of the investigation on August 26, 2024 (4 months after the eight-month period stipulated in the Confirmatory Order dated August 11, 2023) and, issuance of the SCN nearly a year later on August 7, 2025, is material. In fact, it is also seen from the Office Note pertinent to the instant matter, that there exists this year-long day between the time the relevant authorities had determined the course of action and when the instant SCN was issued.

32. In support of the contention of delay the Noticee referred to the judgments of Hon'ble Supreme Court in ***SEBI v. Sunil Krishna Khaitan,*** *(2023) 2 SCC 643****,*** ***State of Gujarat v. Raghav Natha,*** *(1969) 2 SCC 187 and* **Mansaram v. S.P. Pathak,** *(1984) 1 SCC 125* wherein the Hon'ble Supreme Court had held that exercise of powers, when no time is specified, should be done within reasonable time. What would be reasonable time would depend upon facts of each case.

- **<u>The Notice is vitiated by Inordinate Delay and Laches (Noticee No.2)</u>**

33. The Notice was issued after an elapse of 7 years from the date of the alleged Declaration i.e., December 27, 2018. Despite the unavailability of original title deeds having been disclosed as in the Annual Report for F.Y April 2018 to March 2019, and the same being available in public domain, SEBI has chosen to issue the Notice only in August 2025 after a delay of 6 years. SEBI remains conspicuously silent as to the exact time and period when it became aware of the

alleged transaction and what triggered it to investigate the same in the first place i.e., any investor grievance and/or market impact.

34. Even the order of the Delhi High Court in ARB. A. (Comm.) 8 of 2022 & I.A 1648 of 2022 by which SEBI wrongly claims that the Company was established as a mortgagor, is dated March 14, 2022. Yet, the Notice only seems to have been issued after more than 3 years from the date of the said order.

35. For a period of 7 years, SEBI did not find fault in the alleged transaction and/or purported non-disclosure thereof despite having knowledge of the same as demonstrated above.

36. Even with respect to the investigation itself, SEBI's earliest summons to the Noticees and Company personnel on these events was only issued in February 2024. As stated above, the Hon'ble Chairperson of SEBI had passed a Confirmatory order dated August 14, 2023, wherein it specifically directed SEBI to complete the investigation in the matter of the Company's affairs in a *"time-bound"* manner and in any event *"within a period of 8 months from the date of this Order"*. SEBI was therefore supposed to conclude investigation into the affairs of the Company on or before March 14, 2024. However, not only did SEBI fail to adhere to this timeline, but SEBI also continued its investigation well beyond the deadline as is evident from the last summons in the matter which was issued on August 14, 2024 to the Company.

37. the competent authority approved submission of a separate investigation report with respect to the present Notice only on August 13, 2024, nearly 5 months after the deadline of March 14, 2024. Further, a closer look at the Inspection Report and the Office Note supplied to the authorized representatives on September 10, 2025, reveals that there was an additional delay of 1 year from the date of the completion of the investigation - August 26, 2024, (4 months after the 8-month deadline) and issuance of the Notice on August 7, 2025. This delay, like the others above, also remains unexplained and unaddressed by SEBI in the Notice and/or the Investigation Report.

- **Submission on delay by Noticee No.3**

38. The SCN is barred by limitation owing to the inexplicable and unjustified interval between the transpired events which are discussed in the SCN and its issuance. Further, on the perusal of the approval chart dated August 30, 2024, as shared by SEBI, the investigation in the present matter was concluded on August 30, 2024, and SEBI took almost twelve months to issue the SCN. The SCN merely reiterates the findings of the investigation report. Such delay reflects that SEBI acknowledges the fact that the underlying issue is merely academic in nature and has no relevance.

39. This aforementioned delay in initiating the present proceedings has caused immense prejudice to the Noticee. It is pertinent to note that the Noticee is a 75-year-old senior citizen and is no longer associated with ZEEL since stepping down as the non-executive director in August, 2020. Owing to the same, there is a limitation on the Noticee with respect to accessing the corporate records of ZEEL.

Consideration

40. At the outset, I note that in his submission, Noticee No.2 has mixed facts of two distinct SEBI proceedings and referred to one SEBI confirmatory Order dated August 14, 2023 and the timeline mentioned in the said order for completing the investigation. I note that the said Confirmatory Order and the timeline provided therein was with respect to different subject matter which was the Letter of Comfort (LOC) issued by Noticee No.3 however the instant proceedings are concerned with a separate document 'Declaration and Acknowledgment dated December 27, 2018' ('***2018 D&A***') signed by Noticee No.3.

41. Both are not just separate investigations, they also emanated from distinct cause of actions and cannot be referred interchangeably, as contended by Noticee No.2.

42. Though, I note from the investigation report that during the course of earlier investigation (related to LOC), the observation of Statutory Auditors of ZEEL, who

had reported in their audit report for the FY ending March 31, 2019, that the title deeds of certain immovable properties of ZEEL were missing, was observed. However, separate investigation was carried out for the instant matter which resulted in the issuance of the SCN. Hence, the contention of Noticee No.2 that the timeline provided in the Confirmatory Order was not adhered and hence there is delay, is without merit as the submission is factually inaccurate.

43. With regard to the submission on delay in initiating investigation as the events that are investigated occurred in 2018-2019. I note that as per Section 11C of the SEBI Act, 1992, no time line has been prescribed for SEBI to initiate investigation for any period of alleged violation. As held by the Hon'ble Supreme Court in various orders referred by the Noticees and also in ***Adjudicating Officer, Securities and Exchange Board of India vs. Bhavesh Pabari*** *(2019) SCC Online SC 294* that *when period of limitation is not prescribed, such power must be exercised within a reasonable time*. I note that though the allegations being adjudicated in the instant proceedings have its genesis in the observation made by the statutory auditors of ZEEL which was included in the Annual report of ZEEL for 2018-19, the said observation itself is not the basis of allegations made in the SCN. During the course of investigation, the Order of Delhi high Court of 2022 and the 2018 D&A were discovered and the lender involved in the instant matter, Indiabulls Housing Finance Ltd. (IHFL) was summoned and additional details were obtained regarding the transaction. During the investigation, SEBI sought and examined various documents from third parties and various entities were summoned in this regard and on the basis of the responses received from various entities the findings were made in the Investigation Report.

44. With regard to the submission that there was delay in the issuance of SCN as the investigation was completed in August 2024, I note that, post completion of SEBI investigation and prior to the issuance of the SCN, ZEEL filed *suo motto* settlement application with SEBI and as per regulation 8(2) of SEBI (Settlement Proceedings) Regulations, 2018, as per which the proceedings cannot be initiated till the application is rejected or withdrawn.

45. With regard to the submission of Noticee No.3 that since he is no longer associated with ZEEL since stepping down as the non-executive director in August, 2020, there is a limitation on the Noticee with respect to accessing the corporate records of ZEEL. In this regard, I note that the fact that Noticee No.3 is presently the 'Chairman Emeritus' of ZEEL. ZEEL in its submission has predominantly mentioned the same and has mentioned that Noticee No.3 had founded ZEEL in 1982. Hence, the argument that he has no association with company and is prejudiced due to lack of access of documents due to the same cannot be accepted considering his stature in the company, being its founder, and the position he continues to hold in the company i.e. of Chairman Emeritus.

46. Also, the contention of Noticee No.3 that the relevant staff who were working with the Noticee between the period from December, 2018 to June, 2020 are no longer employed with the Noticee and hence has caused prejudice is bereft of details and hence cannot be accepted. Hence, I note that the Noticees have not detailed out how and in what manner their defence was prejudiced due to efflux of time as they were contending.

- **<u>Common Submissions on Bias</u>**

<u>SEBI's investigation is vitiated by bias and prejudice</u>

47. Upon completing the inspection of documents, inter alia, consisting of the Investigation Report and the Office Notice dated August 26, 2024, the Noticees submitted that the investigation was premeditated and initiated with the intention of ascribing guilt to them. According to the Noticees, the investigation had been approved by an Authority who had already demonstrated bias against Noticee No. 1 and its key managerial personnel.

48. In support of the allegation, the Noticees submitted that the said Authority had previously dealt with them while serving in a senior position in an institution that was a lender to the promoter group. During that period, the Authority had taken material decisions concerning recovery of the debts owed by the promoter group.

Subsequently, after joining the market regulator, the same Authority supervised the investigation into the business transactions of Noticee No. 1 and passed an ex parte ad interim order dated June 12, 2023 against Noticee Nos. 2 and 3 in relation to the alleged appropriation of certain fixed deposits of Noticee No. 1 by a bank.

49. The Noticees relied upon the order dated July 10, 2023 passed by the Hon'ble Securities Appellate Tribunal in the appeal challenging the aforesaid ex parte ad interim order. The Hon'ble Tribunal observed that the Authority, while passing the impugned order, had taken into consideration an interim order dated April 25, 2023 passed in another matter in which the appellants were not parties, and that the said order appeared to have influenced the decision. The Honble Tribunal further noted that the settlement application filed by the appellants had earlier been considered by a committee of which the same Authority was a member, thereby giving rise to a possibility that the discussions in the settlement proceedings may have influenced the decision. The Honble Tribunal observed that the Authority was required to confine itself to the material evidence available on record and ought not to import information within its personal knowledge. Accordingly, in order to remove any apprehension of bias, the Honble Tribunal directed SEBI to appoint another Authority to consider the objections of the appellants.

50. According to the Noticees, the aforesaid observations amounted to an acknowledgment by the Hon'ble Tribunal that the concerned Authority ought not to have relied upon information within its personal knowledge. The direction to appoint another Authority to consider the allegations and objections and pass the subsequent order was stated to have been issued specifically to eliminate any possibility of bias.

51. The Noticees also relied upon the affidavit filed by the regulator before the Hon'ble Bombay High Court in ***Subhash Chandra v. SEBI***, Writ Petition (L) No. 7828 of 2024. In the said affidavit, the SEBI stated on solemn affirmation that the subsequent confirmatory order had been passed by a different Authority and that the final order would also be passed by an Authority who had neither participated

in the settlement panel that considered the settlement applications filed by the concerned Noticees nor was the Authority to whom the concerned investigating department reported.

52. The Noticees contended that the aforesaid statement demonstrated the regulator’s declared intention to maintain a watertight separation between the different stages of the proceedings so that the adjudicating Authority would not be influenced by any prior decision or involvement.

53. It was, however, contended that the said principle of segregation had been completely diluted in the present proceedings. The instant SCN had been issued by an Authority who, at the time of passing of the confirmatory order, was working directly under the supervision of the Authority who had passed that confirmatory order and was posted in the office headed by that Authority. According to the Noticees, the biases allegedly existing in the minds of the Authorities involved at the relevant time had thereby percolated into the present proceedings, rendering them non est.

54. Noticee No. 2 further submitted that the Authority who issued the instant Notice had, at the time when the confirmatory order was passed, worked directly under the supervision of the concerned Authority and reported to that Authority. According to the Noticee, such a close professional relationship raised a reasonable apprehension that the bias and prejudice of the Authorities involved in the earlier proceedings had carried over into the present proceedings.

55. It was also contended that the regulatory actions against the Noticees commenced only after the concerned Authority joined the regulator on June 1, 2022 and assumed responsibility for the relevant department. According to the Noticees, this circumstance demonstrated that the alleged bias and prejudice carried by the Authority from its previous employment had influenced the investigation and the actions subsequently initiated against them, including the present Notice issued by an Authority who had also worked under the supervision of the said Authority.

Consideration

56. I have considered the submissions of the Noticees. For the purpose of the present discussion, the expression "Earlier Proceedings" refers to the proceedings arising from the alleged appropriation by a bank of certain fixed deposits belonging to Noticee No. 1, in which an ex parte ad interim order dated June 12, 2023 was passed against Noticee Nos. 2 and 3, followed by the order dated July 10, 2023 of the Hon'ble SAT and the subsequent confirmatory proceedings. The present proceedings, on the other hand, arise from the transactions and alleged violations forming the subject matter of the instant SCN.

57. The allegation of bias is broadly founded on three grounds. First, the Competent Authority Approving the Investigation allegedly had a prior professional association with the promoter group and had taken decisions concerning recovery of its debts. Second, the observations made by the Hon'ble SAT in the Earlier Proceedings are stated to establish bias on the part of the Competent Authority Approving the Investigation. Third, such alleged bias is stated to have percolated into the present proceedings because the undersigned, being the Quasi-Judicial Authority, had earlier worked in the office of the Competent Authority Passing the Confirmatory Order in the Earlier Proceedings. I proceed to examine these contentions.

58. At the outset, the contention that the Quasi-Judicial Authority directly reported to the Competent Authority Approving the Investigation is factually incorrect. The office in which the undersigned discharging the functions of the Quasi-Judicial Authority was posted was distinct from the office of the Competent Authority Approving the Investigation. During the relevant period, the undersigned discharging the functions of the Quasi-Judicial Authority neither reported to nor worked under the supervision of the said Competent Authority Approving the Investigation. The Noticees have interchangeably referred to different Authorities and their respective offices to suggest a reporting relationship which did not exist.

59. The contention that there was no separation between the investigation and the present quasi-judicial proceedings is also contrary to the record. The Quasi-Judicial Authority had no role in initiating, conducting or supervising the investigation. A separately appointed Investigating Authority gathered the evidence and prepared the Investigation Report. The action arising from the investigation was thereafter approved by the Competent Authority Approving the Investigation in accordance with the applicable delegation of powers. This Quasi-Judicial Authority was appointed subsequently and only for conducting the present proceedings. Thus, the stages of investigation, approval of action and quasi-judicial consideration were undertaken separately by different Authorities.

60. The reliance placed on the order dated July 10, 2023 of the Hon'ble SAT also does not establish bias in the present proceedings. The observations of the Hon'ble SAT were made in the specific factual context of the Earlier Proceedings. The Hon'ble SAT noted that the Authority deciding that matter had considered an order passed in another proceeding in which the appellants were not parties and had also participated in the committee which considered their settlement applications. It was in those particular circumstances that the Hon'ble SAT directed another Authority to consider the objections in that matter.

61. The Hon'ble SAT did not hold that the Competent Authority Approving the Investigation was biased against the Noticees for all purposes. Nor did it hold that every investigation or proceeding involving the Noticees would consequently stand vitiated. The direction was confined to the adjudication of the Earlier Proceedings and arose from the possibility that the Authority deciding that matter may have been influenced by material outside the record of that particular proceeding. Those observations are incorrectly extended to an independent proceeding without establishing a direct connection between the circumstances noticed by the Hon'ble SAT and the present lis.

62. The Earlier Proceedings and the present proceedings are founded on entirely different causes of action. The Earlier Proceedings concerned the alleged

appropriation of fixed deposits of Noticee No. 1 by a bank. The present proceedings arise from a different set of transactions, evidence and alleged regulatory violations. The instant order is neither a continuation of nor the final order in the Earlier Proceedings. Commonality of some Noticees does not convert two distinct proceedings into one continuous proceeding.

63. The affidavit filed by the regulator before the Hon’ble Bombay High Court in connection with the Earlier Proceedings needs to be seen in the context of allegation of bias in the present matter. The statement relied upon concerned the Authority who would pass the final order in the Earlier Proceedings. It was intended to maintain separation from the settlement panel and from the Authority to whom the investigating department concerned with that matter reported. The statement was therefore confined to the continuation and final adjudication of the Earlier Proceedings. It cannot be read as creating a general disqualification against every Authority who had worked in the office of the Competent Authority Passing the Confirmatory Order, irrespective of the subject matter of a subsequent proceeding.

64. The confirmatory order was passed in the Earlier Proceedings concerning the alleged appropriation of fixed deposits. The present SCN arises from a separate investigation concerning different transactions and alleged violations. The Competent Authority Passing the Confirmatory Order had neither dealt with the subject matter of the present SCN nor formed any view on the facts, evidence or allegations arising in the present proceedings. Therefore, no question of subject-matter bias can arise merely from the earlier administrative association of the undersigned with the office of that Competent Authority. An opinion formed in one proceeding cannot, without a factual or evidentiary connection, be presumed to extend to a different proceeding concerning a distinct subject matter. Therefore, the contention that the previous posting of the undersigned in the office of the Competent Authority Passing the Confirmatory Order gives rise to a reasonable apprehension of bias is also without basis.

65. The approval of an investigation and the subsequent issuance of an SCN do not establish that the outcome was predetermined. An SCN only sets out allegations requiring examination and does not constitute a finding of guilt. In the present proceedings, the Noticees were granted inspection of documents and sufficient opportunities to file replies, place material on record and make submissions during personal hearings. Their contentions are being independently examined by this Quasi-Judicial Authority on the basis of the material available on record before any conclusion is reached.

66. In ***Trishala v. M.V. Sundar Raj***, *(2010) 15 SCC 714*, the Hon'ble Supreme Court held that a past professional association, by itself, does not constitute a ground for recusal unless a direct nexus with the lis is established. In the present case, no direct nexus has been shown between the prior professional association of the Competent Authority Approving the Investigation, the circumstances arising in the Earlier Proceedings, the previous administrative posting of the undersigned and the issues arising for determination under the instant SCN.

67. I therefore find that the allegation of bias proceeds on an incorrect assertion regarding the reporting relationship, an erroneous extension of the observations made by the Hon'ble SAT in the Earlier Proceedings and an assumption that bias automatically travels from one Authority to another through administrative association. It also overlooks that the confirmatory order relied upon was passed in a different matter involving a distinct subject matter and cause of action. Since neither the Competent Authority Passing the Confirmatory Order nor the Quasi-Judicial Authority had formed any prior view on the transactions and allegations arising under the present SCN, no subject-matter bias is established. These circumstances, whether considered individually or cumulatively, do not establish actual bias, prejudgment or a reasonable apprehension of bias in the present proceedings. The preliminary objection is accordingly rejected, and I shall now proceed to examine the issues on merits.

68. Extract of the provisions alleged to be violated by the Noticees are reproduced below:

SEBI LODR Regulations

'4. Principles governing disclosures and obligations.

(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.

…

(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.

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

…

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

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

23. Related party transactions.

(1)…

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

30. Disclosure of events or information.

(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.

(2) Events specified in Para A of Part A of Schedule III are deemed to be material events and listed entity shall make disclosure of such events.

…

(6) The listed entity shall first disclose to stock exchange(s) of all events, as specified in Part A of Schedule III, or information as soon as reasonably possible and not later than twenty four hours from the occurrence of event or information:

Provided that in case the disclosure is made after twenty four hours of occurrence of the event or information, the listed entity shall, alongwith such disclosures provide explanation for delay:

Provided further that disclosure with respect to events specified in sub-para 4 of Para A of Part A of Schedule III shall be made within the timelines specified therein.

(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.

(8)The listed entity shall disclose on its website all such events or information which has been disclosed to stock exchange(s) under this regulation , and such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

SCHEDULE III

PART A: DISCLOSURES OF EVENTS OR INFORMATION: SPECIFIED SECURITIES

A. Events which shall be disclosed without any application of the guidelines for materiality as specified in sub-regulation (4) of regulation (30):

6. Fraud/defaults by promoter or key managerial personnel or by listed entity or arrest of key managerial personnel or promoter.

34. Annual Report.

…

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

48. Accounting Standards.

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

SCHEDULE V: ANNUAL REPORT

A. Related Party Disclosure:

1. The listed entity shall make disclosures in compliance with the Accounting Standard on "Related Party Disclosures".'

Other provisions alleged to be violated by Noitcee No.2 and 3

SEBI LODR Regulations

'4. Principles governing disclosures and obligations.
(2)The listed entity which has listed its specified securities shall comply with the corporate governance provisions as specified in chapter IV which shall be implemented in a manner so as to achieve the objectives of the principles as mentioned below.
(f)Responsibilities of the board of directors: The board of directors of the listed entity shall have the following responsibilities:
(i)Disclosure of information:
(1)Members of board of directors and key managerial personnel shall disclose to the board of directors whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the listed entity.

(ii) Key functions of the board of directors-
(1)…
(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.

(iii)Other responsibilities:
(1)…

(14) The board of directors and senior management shall facilitate the independent directors to perform their role effectively as a member of the board of directors and also a member of a committee of board of directors.

SEBI* Act*, 1992

12A. Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control.
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 (*PFUTP*) Regulations, 2003
3. Prohibition of certain dealings in securities
(a)…
(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made there under;
(c) employ any device, scheme or artifice to defraud in connection with dealing 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.'

<u>Other provisions alleged to be violated by Noticee No.3 (Noticee No.3)</u>

SEBI LODR Regulations

'4. Principles governing disclosures and obligations.

(1)…

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

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

(iii)Other responsibilities:

(1)…

(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.

SEBI Act, 1992

27. Contravention by companies

(1)…

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

<u>Other provisions alleged to be violated by Noticee No.2 (Noticee No.2)</u>

LODR Regulations, 2015

'17. Board of Directors.

(1)…

…

(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.

SEBI Act, 1992

11C. Investigation.

(1)…

(3) The Investigating Authority may require any intermediary or any person associated with securities market in any manner to furnish such information to, or produce such books, or registers, or other documents, or record before him or any person authorised by it in this behalf as it may consider necessary if the furnishing of such information or the production of such books, or registers, or other documents, or record is relevant or necessary for the purposes of its investigation.

…

(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.

SEBI Act, 1992

27. Contravention by Companies

(1) Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder has been committed by a company, every person who at the time the contravention was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such contravention.'

I. Whether Noticee No.2 and 3, as alleged in the SCN, devised a fraudulent scheme to pledge ZEEL's immovable asset (Hyderabad land) without authorisation to secure loans benefitting the borrowing entities, wherein the family members of Noticee No.3 and Noticee No.2 were the ultimate beneficiaries?

69. I note that through four separate loan agreements dated December 13, 2016 (‘***Loan Agreements’***), the four borrowing entities, namely, Gnex Projects Private Limited, Vivek Infracon Private Limited, Gnex Infrabuild Private Limited and Renu Realtech Private Limited, had availed loans aggregating ₹726 crores from IHFL. Essel Home Private Limited was a co-borrower under the lending arrangement. As a collateral for the aforesaid loan various documents, at different times, were entered between IHFL and other entities. Among those was the Deed of Personal Guarantee dated December 05, 2018, by Noticee No.3 in favour of IHFL guaranteeing to be jointly, severally and co-extensively liable to pay the amount along with interest, default interest, costs, etc.

70. I also note that on November 14, 2018, IHFL issued a notice to the borrowing entities and Essel Home recording non-maintenance of the stipulated security cover. Through the notice, IHFL required them to maintain or create adequate security and to pay the applicable default interest. Thus, immediately before the impugned document was executed, the borrowers were under a specific requirement to provide additional security.

71. ZEEL was not a borrower under the Loan Agreements and had not received any part of the loan proceeds and had no pre-existing obligation under those agreements to provide security to IHFL. The freehold land measuring 17,639.64 square metres at Road No. 78, Jubilee Hills, Shaikpet Village, Hyderabad (Hyderabad Land) belonged to ZEEL.

72. I find that a Declaration and Acknowledgement dated December 27, 2018 (2018 D&A) was thereafter executed in the name of ZEEL. The document identified the Hyderabad Land, referred to its original title documents and connected that property with the loan obligations of the borrowing entities. Clause 18 of the document stated that the permissions and approvals required for creation of the security had been obtained. ZEEL did not receive the loan proceeds or any identified consideration under the arrangement.

73. **Admissibility of 2018 D&A:** Before this examination is made, I prefer to deal with the contention raised by the Noticee on the admissibility of 2018 D&A**.** In this regard, the Noticees contended that the 2018 D&A, being an unregistered document, cannot be relied upon as evidence of creation of a mortgage.

74. I note, the restriction on relying upon an unregistered document may assume relevance where the court is called upon to determine legal ownership, transfer of an interest in immovable property or the validity and enforceability of a mortgage under property law. The present proceedings do not involve adjudication of any such civil right. The document is relied upon, in the instant proceedings, for the limited purpose of examining whether ZEEL's property was represented and deployed as security in furtherance of the alleged fraudulent scheme and whether the transaction attracted the requirement of prior approval under the related party transaction framework and other related allegations of violations.

75. The reliance placed by the Noticee No.3 on SEBI Final Order dated 21.03.2022 in the matter of ***Quest Financial Services Ltd.*** *(WTM/AB/IVD/ID19/15432/2021-22)* is also misplaced. In that case, the rent agreement was not accepted as genuine because no payment of rent was shown, the agreement did not even stipulate the period for which the premises had been rented and the agreement was unregistered. Thus, the issue before the authority was the genuineness of the agreement itself.

76. The issue in the present case is different. It is not the case of the Noticees that the 2018 D&A is forged, fabricated or a sham document. Its execution and existence are not disputed. The question of genuineness of the document is not in dispute.

77. The SEBI Final order in the matter of ***Excel Realty N Infra Limited*** *(Order No. WTM/AB/CFID/CFID-SEC1/28292/2023-24; dated July 28, 2023)* cited in defence also involved a question in respect of the genuineness of the document relied upon in that case. Therefore, both the orders cited by the Noticees arose in a different factual context and do not assist them in the present proceedings.

78. Accordingly, the fact that the 2018 D&A was not registered does not prevent it from being considered as evidence of the acts, representations and arrangements recorded therein for examining the alleged violations of the securities laws. The contention of the Noticees is, therefore, rejected.

79. It is further undisputed that no approval of ZEEL's Board, Audit Committee or any other competent corporate authority had been obtained for using the Hyderabad Land as security. It is also not in dispute that the proposed transaction was not placed before the Board or Audit Committee before the 2018 D&A was executed.

80. During the relevant period, Noticee No.3 was the Chairman and Non-Executive Director (NED) of ZEEL, while Noticee No.2 was its Managing Director (MD) and CEO. I note the 2018 D&A bears the signature attributed to Noticee No.3 and describes him as acting on behalf of ZEEL. I also find that Noticee No. 3 has not disputed that the signature was forged or fabricated. His defence is limited to the extent that he does not remember executing the document. I also note Noticee No.2 was not a signatory to the 2018 D&A. His name also does not appear in the document. IHFL did not ultimately sell the property (Hyderabad Land), and ZEEL was not permanently dispossessed of it. b

81. **<u>Dispute in Essence</u>**: However, the Noticees disputed the essential factual and legal elements of the alleged fraudulent scheme. First, they disputed that the borrowing entities were controlled by Noticee Nos. 2 and 3 or that they were the ultimate beneficiaries of those entities. Second, they deny knowledge of the arrangement. Noticee No. 3 contended that he does not remember executing the 2018 D&A and was unaware of the handing over or continued retention of ZEEL's original title deeds, while Noticee No. 2 contended that his name does not appear in the said document and that there is no communication, meeting or other direct evidence connecting him with its execution. Third, they contended that no fraudulent or mala fide intention, common understanding or meeting of minds between them has been established. According to them, their family relationship, positions in ZEEL and connection with the borrowing entities cannot, without

further evidence, establish that they devised or acted together in furtherance of a fraudulent scheme. Fourth, they contended that neither of them received any direct monetary or other benefit and that no loss was ultimately caused to ZEEL, since the title deeds were recovered and the property was subsequently sold at a profit. Fifth, they contend that the alleged conduct had no nexus with dealing in securities.

82. According to them, the representation in the 2018 D&A was made only to a private lender in a bilateral lending transaction, while the alleged non-disclosure to the Board was merely an internal corporate governance issue. On this basis, they contend that there was no inducement to deal in ZEEL's securities, no intention to influence any investment decision, no injury to investors, no unlawful gain or avoidance of loss and no adverse impact upon the securities market. The question which therefore arises is whether, notwithstanding these denials, the cumulative circumstances establish their control over and interest in the borrowing entities, their respective knowledge and intention, the benefit arising from the arrangement, the meeting of minds between them and the necessary nexus of the alleged scheme with ZEEL's listed securities.

83. The Noticees have separately rested a substantial part of their defence upon the alleged invalidity and unenforceability of the mortgage. According to them, ZEEL was not a party to the underlying Loan Agreements; the 2018 D&A was neither authorised by ZEEL nor approved by its Board or Audit Committee; the document, 2018 D&A was unregistered; physical possession of the property (Hyderabad Land) continued with ZEEL; and no valid or enforceable mortgage was ultimately created or enforced by IHFL. On that basis, they contended that there could be neither fraudulent deployment of ZEEL's property in the absence of a legally valid enforceable mortgage.

84. **Interest/control of Noticee 2 and 3 in the Borrower entities**: In the context of the above dispute, I proceed to deal with the interest of the Noticee 2 and 3 in the borrowing entities.

85. The question which arises for consideration is whether the *ultimate control* of the borrowing entities rested with Noticee No.3, Noticee No.2 and their family members, as alleged in the SCN.

86. Noticee No. 2 have contended that the SCN does not identify any management rights, voting rights, shareholders' agreement, voting arrangement or other contractual right through which Noticee No.2 could control or significantly influence the borrowing entities. The mere description of Noticee No.3, Noticee No.2 and their family members as ultimate beneficiaries is stated to be insufficient to establish control or joint control.

87. It is further contended that, even if SEBI's shareholding diagram is accepted, Noticee No.2's indirect economic interest in the borrowing entities was less than one per cent and arose through several corporate layers. Such a remote and insignificant interest, according to the Noticee No.2, could not establish his ability to influence the management, borrowing decisions or utilisation of funds of those entities.

88. The Noticees contended that shareholding alone cannot establish either *de facto* or *de jure* control. The separate legal personality of each corporate entity must be respected, and the ownership of shares through several companies cannot, without further evidence, be treated as control by the ultimate individual shareholders.

89. In this regard, it is relevant to note that the borrowing entities are 100 percent controlled by Essel Home Pvt Ltd. which in turn is 100 percent controlled by Essel Realty Developers. Therefore, it needs to be seen who in fact has the controlling power in, Essel Realty. At the first level, Essel Realty appears to have six separate corporate shareholders. The Shareholding is tabulated below: -

Shareholders → / Corporate Entity ↓	Essel Realty	Essel International	Essel Media Ventures	Essel Agro Pvt Ltd	Jay Properties Pvt Ltd	Edisons Infrapower	Konti Infrapower	Others
Essel Realty *(Holding Company of borrowing entities)*	-	16%	20%	16%*	16%*	16%*	16%*	0.0021% Joint Holding (Sushila Goenka and Essel Media)
Essel International	Nil	-	Nil	Nil	Nil	Nil	Nil	100% BO Noticee No.3, later Celestine Family Trust
Essel Media Ventures	Nil	Nil	-	Nil	Nil	Nil	Nil	Sushila Goenka (99.99%) and Noticee No.2 (0.01%)
Essel Agro Pvt Ltd	16%*	16%	20%	-	16%*	16%*	16%*	Nil
Jay Properties Pvt Ltd	16%*	16%	20%	16%*	-	16%*	16%*	Nil
Edisons Infrapower	16%*	16%	20%	16%*	16%*	-	16%*	Nil
Konti Infrapower	16%*	16%	20%	16%*	16%*	16%*	-	Nil

** cross shareholding*

90. The borrowing entities were wholly owned by Essel Home Private Limited, which was in turn wholly owned by Essel Realty Developers Private Limited ("Essel Realty"). Therefore, the control of the borrowing entities depends upon who controlled the voting and decision-making power of Essel Realty.

91. For determining the ultimate control, I note that 'Control' can be examined through the power to determine how voting rights are exercised. Where the shareholder is an individual, the voting decision originates from that individual. Where the shareholder is a company, its decision on how to vote must first be formed within its own corporate structure. If its shareholders are again corporate entities, the

examination has to continue until the persons capable of forming the ultimate voting intention are identified.

92. Noticee No.2 had contended that no management rights, voting agreements, shareholders' agreements or other contractual rights have been shown through which Noticee No. 2 could control the borrowing entities. It was further contended that Noticee No.2 never derived any monetary or non-monetary benefit from the borrowing entities hence the allegation of him being the ultimate beneficiary is factually incorrect. Noticee No.2 also submitted that indirect shareholding was less than one per cent, that shareholding alone cannot establish *control* and that the separate legal personality of the intermediate companies cannot be disregarded.

93. The question therefore that needs consideration is whether the corporate shareholders of Essel Realty represented independent sources of voting power *or* whether their voting decisions controlled by outside shareholders other than the said corporate shareholders.

94. At the first level, Essel International held 16% in Essel Realty, Essel Media Ventures held 20%, while Essel Agro Private Limited, Jay Properties Private Limited, Edisons Infrapower and Konti Infrapower ('**the four companies**') each held 16%. The latter four companies therefore collectively held 64%.

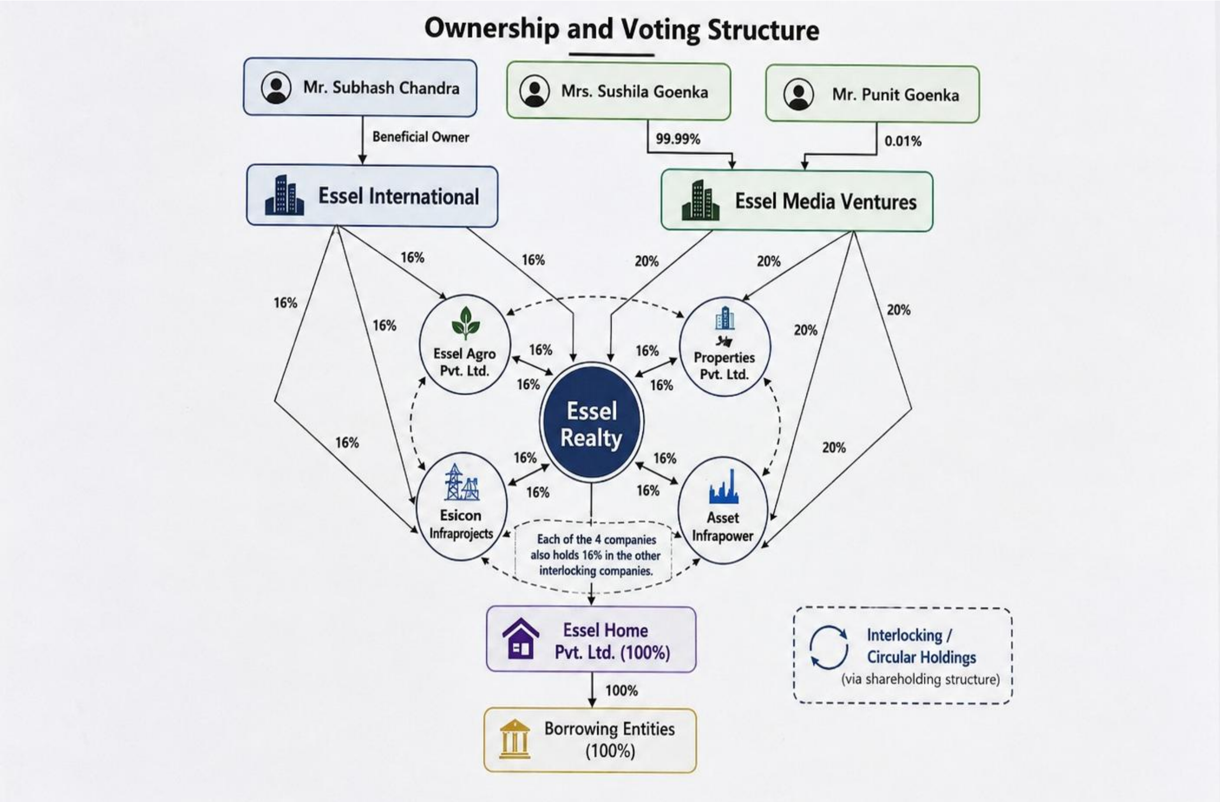
95. At first sight, this may suggest that the majority voting power was distributed among four independent companies. However, those four companies were themselves held by Essel Realty, Essel International, Essel Media Ventures and one another. They did not have separate shareholder bases from which independent voting decisions could arise.

96. The reciprocal shareholding makes this clear. Essel Realty held shares in each of the four companies, while those companies held shares in Essel Realty. The four companies also held shares in one another. Thus, Essel Realty participated in

forming their corporate will, while they simultaneously participated in forming the corporate will of Essel Realty.

97. The structure was therefore circular. Tracing the ownership further did not lead to any new or independent shareholder. It repeatedly returned to Essel Realty, Essel International, Essel Media Ventures and the same four interlocking companies. This finding does not disregard the separate legal personality of the companies. Each company continues to remain a distinct legal entity. The issue is only whether the four companies holding 64% in Essel Realty constituted independent sources of voting intention.

98. Similarly, the absence of a voting agreement or shareholders' agreement does not conclude the determination of the issue at hand. Such documents may provide direct evidence of control, but control may also be established from an ownership structure in which the same entities hold one another and no independent voting source exists within the circular block. The shareholding structure is represented in the following figure.



99. The above diagram shows the circular dependence of the four companies. The companies forming this circular block cannot therefore be regarded as the ultimate source of ownership or control. Their ‘corporate will’ is derivative of one another. None of them constitutes an independent point from which a voting intention concerning Essel Realty can originate. The only shareholding lines which do not return to the circular block are those of Essel International and Essel Media Ventures.

100. Essel International held 16% in Essel Realty and 16% in each of the four interlocking companies. During the relevant period, it was beneficially owned by Noticee No.3. The voting interest exercised through Essel International was therefore traceable to him. Essel Media Ventures held 20% in Essel Realty and 20% in each of the four interlocking companies. It was held 99.99% by Mrs. Sushila Goenka and 0.01% by Noticee No.2. The voting interest exercised through Essel Media Ventures was therefore traceable to them.

101. What is extremely important is Noticee No.3. Mrs. Sushila Goenka, Noticee No.3 and Noticee No.2 are the only individuals who can exercise their control over the corporate shareholding of all entities through Essel International and Essel Media Ventures who intern hold shares in other four companies which together hold 64% in Essel Realty.

102. As on January 21, 2013 and July 30, 2015, Mr. Subhash Chandra held 100% beneficial ownership in EIL, however, as on June 19, 2023 the 100% beneficial ownership is being held by Celestine Family Trust. The beneficiaries of the said trust are the family members of Mr. Subhash Chandra.

103. Their control through their voting power therefore, operate through two channels. They operate directly through the 16% and 20% holdings of Essel International and Essel Media Ventures in Essel Realty. They also operate through the corresponding holdings of these two entities in Essel Agro, Jay Properties, Edisons Infrapower and Konti Infrapower, which together constitute the remaining

substantial shareholding in Essel Realty. Therefore, the real decision making centre are Noticee No.3. Mrs. Sushila Goenka and Noticee No.2 for Essel Realty.

104. The manner in which these interests operated may be understood by taking 100 votes in Essel Realty. Essel International held 16 votes, Essel Media Ventures held 20 votes and the four interlocking companies together held the remaining 64 votes. Thus, Essel International and Essel Media Ventures directly held 36 votes. However, before the four companies could exercise the remaining 64 votes, their own shareholders had to decide how those votes should be cast. Those shareholders again included Essel International, Essel Media Ventures, Essel Realty and the same interlocking companies. The 64 votes therefore did not constitute an independent voting block. Their manner of exercise was again formed within the same structure in which Essel International and Essel Media Ventures were the only external sources of voting intention.

105. The voting control of Noticee No.3, Mrs. Sushila Goenka and Noticee No.2 consequently operated through two routes. First, they entered Essel Realty directly through the 36 votes held by Essel International and Essel Media Ventures. Second, through the same two entities, they participated in determining how the four companies would exercise the remaining 64 votes. There was no independent person or shareholder group behind the 64 votes capable of forming a separate voting intention except Noticee No.3. Mrs. Sushila Goenka and Noticee No.2.

106. This also answers the defence that Noticee No. 2 had only a small indirect economic interest. The above facts clearly show that Noticee 2 along with his family members was capable of exercising control of the Essel Reality. His interest entered through Essel Media Ventures, which was present in every material company forming part of the structure.

107. Once the corporate will of Essel Realty was formed, the control flowed downward without interruption. Essel Realty held 100% of Essel Home and

therefore exercised all voting rights in it. Essel Home, in turn, held 100% of the borrowing entities and exercised all voting rights in them.

The voting chain was therefore can be described as below:

108. Noticee No.3 through Essel International, and Mrs. Sushila Goenka and Noticee No.2 through Essel Media Ventures leading to Essel Realty leading to Essel Home leading to borrowing entities.

109. The intervening corporate entities did not create any independent centre of control. They were the vehicles through which the voting interests of the promoter family were exercised and transmitted to Essel Realty and thereafter to the borrowing entities.

110. I therefore find that Essel International and Essel Media Ventures were the only external sources of voting intention in the structure. During the relevant period, those interests were traceable to Noticee No.3, Mrs. Sushila Goenka and Noticee No.2. Through these corporate entities, their voting interests determined the corporate will of Essel Realty, which thereafter exercised 100% voting control over Essel Home and, through it, the borrowing entities.

111. I further note that the corporate entities viz. Essel International Ltd. and Essel Media Ventures Ltd. are also disclosed as by ZEEL as its promoters in its Annual Report for FY 2018-19 having 1.47% and 10.71% of shareholding in ZEEL at the relevant time.

112. Noticee No. 2 has contended that the SCN has improperly lifted the corporate veil of the four borrower entities for identifying their ultimate beneficiaries. It has further been argued that SEBI has travelled through several corporate layers without separately establishing grounds for lifting the veil of each entity, contrary to ***Balwant Rai Saluja and Anr. v. Air India Ltd. and Ors.***, *(2014) 9 SCC 407*.

113. Piercing the corporate veil is ordinarily resorted to where the separate legal personality of a company creates a legal obstacle to fastening its act, liability or property upon the persons controlling it. The consequence of piercing is that the company's separate identity is disregarded, wholly or for a limited purpose.

114. In ***Balwant Rai Saluja*** *(supra)*, the employees were formally employed by Hotel Corporation of India Ltd., a subsidiary of Air India, but sought to be treated as employees of Air India. The separate personality of the subsidiary therefore stood as a direct legal hurdle to the relief claimed. Unless the veil was lifted, the employment obligations of the subsidiary could not be transferred to Air India. The Hon'ble Supreme Court held that mere ownership and control were insufficient and that misuse of the corporate structure, fraud, impropriety or evasion of an existing obligation had to be established.

115. The instant matter is however different. No act of the borrower entities is being attributed to Noticee Nos. 2 or 3. No debt or liability of the borrowers is sought to be imposed upon them. Nor are the assets of the borrowers being treated as the personal assets of the Noticees. The borrower entities continue to retain their separate legal existence and their respective rights and liabilities remain undisturbed.

116. The examination here is confined to identifying the persons who ultimately owned, controlled or stood to benefit from the four borrower entities. For this purpose, the shareholding of each entity has been followed through the successive corporate layers until the ultimate controlling and beneficial interests were identified. Such an exercise does not disregard the corporate structure. It relies upon the legally recorded shareholding of every intermediate entity and follows the corporate chain to its end.

117. It is further relevant that no allegation of fraud has been made against the borrowers. The SCN does not proceed on the basis that the borrowers committed the fraudulent act. The allegation is that Noticee Nos. 2 and 3, by virtue of their

positions in ZEEL, participated in or facilitated the fraudulent scheme. The alleged benefit accrued to entities which, upon tracing their ownership and control, were found to form part of the promoter-family-controlled structure.

118. Thus, the ownership analysis is not undertaken to identify the persons liable for a fraud committed by the borrowers. The alleged fraud is independently attributed to Noticee Nos. 2 and 3 on the basis of their own conduct and knowledge. The examination of the borrowers' ownership is relied upon only to determine the nexus between the persons alleged to have committed the fraud and the entities which received the benefit.

119. The decision in ***Balwant Rai Saluja*** *(supra)* is therefore not attracted. That judgment restricts the transfer of a company's liabilities to its holding company or controlling persons merely on the basis of ownership and control. It does not prohibit an enquiry into who owns or controls a company. Ownership and control may be established without piercing the veil. What requires piercing is the further step of disregarding corporate personality and transferring rights, liabilities or property from one legal person to another in general or for any specific purpose. No such consequence follows here.

120. Further, in ***Life Insurance Corporation of India v. Escorts Ltd. and Ors.,*** *(AIR 1986 SC 1370)****,*** the Hon'ble Supreme Court observed that the circumstances in which the veil may be lifted cannot be exhaustively enumerated and must depend upon the relevant statutory provisions, the object sought to be achieved, the impugned conduct, the element of public interest and the effect upon the parties concerned.

121. Therefore, even assuming that the present exercise is described as lifting the corporate veil, it would nevertheless be permissible. The object is to determine the persons who ultimately controlled and beneficially owned the borrower entities and to examine whether benefits flowing out of ZEEL accrued to entities forming part of the promoter-controlled structure. This enquiry is directly connected with

identifying the true nature of the transaction, the relationship between the parties and the destination of the benefit.

122. I therefore find that the examination of the ownership structure of the four borrower entities is not an exercise of piercing the corporate veil in the sense contemplated in ***Balwant Rai Saluja*** *(supra)*. The borrowing entities have neither been disregarded nor treated as identical with their shareholders, and their liabilities have not been transferred to the Noticees. The corporate chain has merely been followed to identify the ultimate ownership, control and beneficial interest. The objection raised by Noticee No. 2 is accordingly without merit.

Knowledge of Notice 2 and 3:

123. Next, the fact which arises for consideration is whether Noticee No. 3 consciously executed the 2018 D&A with knowledge of its contents and purpose and Noticee No. 2 had the knowledge of the said arrangement.

124. Noticee No. 2 denied having any **knowledge** of the alleged encumbrance over ZEEL's property. He contended that the SCN does not identify any communication, document, meeting or factual instance demonstrating that he was aware of the alleged transaction at the time of its creation. He further submitted that his name does not appear in the 2018 D&A and that he had no interaction, communication or correspondence with IHFL, the borrowing entities or Noticee No. 3 in relation to the said transaction. According to him, he had also never met or interacted with any representative of IHFL in connection with the alleged mortgage.

125. Noticee No. 2 further contended that ZEEL was neither a party to nor involved in any transaction with IHFL for creation of the alleged mortgage. The transaction was not authorised by ZEEL and was allegedly undertaken without the knowledge of its Board of Directors. On this basis, he submitted that when ZEEL itself had no knowledge of the transaction, such knowledge could not be attributed to him

merely because he was the MD and CEO of ZEEL at the relevant time. He also contended that he had not derived any monetary or other benefit from the alleged transaction.

126. Noticee No. 3 also denied having knowledge of the alleged transaction. He contended that the 2018 D&A had **no legal sanctity** and that ZEEL was neither a party to the Loan Agreements nor aware of or involved in the execution of the said document. He further submitted that the alleged transaction was never placed before or authorised by the Board of ZEEL.

127. Noticee No. 3 also stated that he does not remember signing or executing the Declaration and Acknowledgement dated December 27, 2018. He further claimed that he was unaware of the handing over of the original title deeds of the Hyderabad property to the lender or their continued retention by the lender.

128. Noticee No. 2 and 3 on the allegation of fraudulent scheme have also submitted that the SCN had failed to show how their **knowledge** with regard to the transactions and the is assumed without any supporting documents for the purpose of charging them with the allegations.

129. In this regard, Noticee No. 2 have submitted that the SCN entirely ignores testimony of Noticee No.2 where he submitted before the IA that he had no knowledge of the agreements and that he was not aware of the 'borrowing parties'. The SCN contradicts itself in holding Noticee No.2 liable solely by virtue of his position as MD & CEO of the Company, while simultaneously acknowledging that the Company and its Board of Directors were not aware of the alleged transaction.

130. Cumulatively, Noticee No. 2 and 3 have denied their knowledge of the transaction i.e. 2018 D&A on the following grounds:

I. *Noticee No.2*

1. The SCN does not identify any communication, document, meeting or factual instance showing that he was aware of the alleged encumbrance at the time of its creation.

2. His name does not appear in the 2018 D&A.

3. He had no interaction, communication or correspondence with IHFL, the borrowing entities or Noticee No. 3 concerning the alleged transaction.

4. He had not met or interacted with any representative of IHFL in connection with the transaction.

5. ZEEL was neither a party to nor involved in any transaction with IHFL for creation of the alleged mortgage.

6. The alleged mortgage was not authorised by ZEEL and was stated to have been created without the knowledge of its Board of Directors.

7. Since ZEEL itself allegedly had no knowledge of the transaction, knowledge cannot be attributed to him merely because he was the MD and CEO of ZEEL.

8. He did not derive any monetary or other benefit from the alleged transaction.

II. *Noticee No.3*

1. According to him, the 2018 D&A had no legal sanctity.

2. ZEEL was not a party to the Loan Agreements and was neither aware of nor involved in the execution of the 2018 D&A.

3. The alleged transaction was not placed before or authorised by the Board of ZEEL.

4. He does not remember signing or executing the 2018 D&A.

5. He claims that he was unaware of the handing over or continued retention of the original title deeds of the Hyderabad property by the lender.

Consideration:

131. I have considered the respective submissions of Noticee Nos. 2 and 3. Though their individual defences are differently worded, both proceed substantially on the common premise that ZEEL did not authorise, enter into or have knowledge of the purported creation of security over the Hyderabad property. On that basis, Noticee No. 2 contends that knowledge cannot be attributed to him merely because he

was the MD and CEO of ZEEL, while Noticee No. 3 contends that he does not remember executing the 2018 D&A and was unaware of the handing over of the title deeds.

132. The common basis underlying these submissions proceeds by treating absence of corporate authorisation, absence of Board approval and absence of knowledge as though they were the same. However, they are not so.

133. Authorisation relates to whether the Company, acting through its competent corporate organs, approved the transaction. Knowledge relates to whether a particular person was aware of the transaction or of the acts undertaken in furtherance of it. A transaction may therefore be unauthorised by the Company and yet be fully known to the individuals who devised, executed or permitted it.

134. Indeed, the allegation in the present case is precisely that ZEEL's property (Hyderabad Land) was sought to be misused without authorisation for the benefit of Noticee Nos. 2 and 3. The absence of such approval constitutes the unauthorised character of the transaction. It cannot simultaneously be relied upon to establish that the persons connected with its execution or purpose had no knowledge of it. A matter may be withheld from the Board while remaining known to one or more directors associated with its execution or beneficiaries.

135. If such reasoning is accepted, every person who keeps a transaction outside the formal corporate approval mechanism could subsequently rely upon the absence of such approval to contend that neither the Company nor its officers had knowledge of the transaction. Concealment from the Board/Management would then become evidence of absence of knowledge in favour of the persons responsible for the concealment. Such a conclusion would be inherently contradictory. However, that is what the defence of the Noticee No. 2 and 3 is.

136. The respective knowledge of Noticee Nos. 2 and 3 must therefore be examined independently from the material pertaining to each of them. It cannot be

determined merely by asking whether the transaction had received formal corporate approval.

137. The further contention that ZEEL was not a party to the Loan Agreements and 2018 D&A also does not promote their case of no knowledge. Similarly, the absence of a direct agreement between ZEEL and IHFL does not establish that no acts were undertaken in the name of ZEEL. The 2018 D&A itself purported to deal with ZEEL's property and recorded the purpose for which its original title deeds were being retained. The question is therefore not confined to whether ZEEL entered into a legally valid contract with IHFL. The question is who executed or knew of the document through which ZEEL's property was represented as security and for whose benefit that representation was made.

138. The alleged absence of legal sanctity of the 2018 D&A is also irrelevant to the question of knowledge. The enforceability of a document and the knowledge of the person executing or acting upon it are distinct matters. A document may be legally defective, unauthorised or unenforceable and yet be consciously executed for a known purpose.

139. The defence of both Noticees also proceeds as though *knowledge* can be proved only through a direct communication with IHFL or an express reference in the 2018 D&A. Direct correspondence, meetings and written instructions are possible modes of proving knowledge, but they are not the only modes. Therefore, that proposition cannot be accepted.

140. I note that the knowledge may be inferred from the cumulative effect of the surrounding circumstances, including the nature and materiality of the transaction, the position occupied by the person concerned, his relationship with the borrowing entities and their ultimate beneficiaries, the acts undertaken by him, the purpose served by those acts and his subsequent conduct when the transaction surfaced.

141. A fraudulent or unauthorised arrangement is not ordinarily documented in a manner which records the *knowledge* of every person connected with it. To insist upon an express email or written admission from each person would make the inference of knowledge impossible except where the persons themselves created a direct record of their involvement. The evidentiary enquiry must instead determine whether the circumstances, considered as a whole, make the plea of complete ignorance probable or improbable.

142. In this context, the nature of the transaction, in the present matter, assumes relevance. It concerned the purported deployment of ZEEL's immovable property and its original title deeds as security for substantial borrowings of entities connected with the promoter family. The transaction exposed a material corporate asset to legal and commercial risk, although ZEEL itself had not availed the loans.

143. The persons whose knowledge is under examination were also not strangers to either ZEEL or the borrowing entities. Noticee No. 2 was the MD and CEO of ZEEL and a member of the promoter family. Noticee No. 3 was the then Chairman of ZEEL as well as Non-Executive Director and represented himself as its authorised signatory in the 2018 D&A and was directly connected with the promoter group and the borrowing entities.

144. Noticee Nos. 2 and 3's connections with the borrowing entities and them being the ultimate beneficiaries, does not, by itself, conclusively establish knowledge. It however, provides the rationale in which the 2018 D&A was executed and the Hyderabad Land was purportedly offered as security. It is therefore a relevant circumstance in assessing the credibility of their respective denials.

145. The contention that no personal monetary benefit was received is also not relevant. Knowledge of a transaction does not depend upon proof that the person concerned personally received the loan proceeds. Therefore, the absence of proof of a direct monetary receipt does not exclude either knowledge or purpose.

146. The subsequent events, mentioned in the SCN, also have evidentiary relevance, though they must be used with care. A subsequent event cannot, merely by occurring later, retrospectively create knowledge as on December 27, 2018. However, the conduct of Noticee Nos. 2 and 3 after the transaction formally surfaced may legitimately be examined to test the credibility of their assertion that they were previously unaware of it.

147. Where a person genuinely discovers for the first time that a major corporate asset has been used without authority, the ordinary and expected response would include immediate repudiation of the document, challenge to the signature or execution, demand for return of the title deeds, placement of the matter before the Board and Audit Committee, commencement of an internal enquiry and action against the persons responsible.

148. The absence of such overt actions does not, standing alone, conclusively establish prior knowledge. It nevertheless weakens the plea that the transaction came as a complete surprise. Subsequent silence, accommodation or failure to repudiate may therefore corroborate other evidence indicating that the transaction was already known. Thus, the subsequent events are not the source from which prior knowledge is artificially created. They are relevant because they provide a test against which the truthfulness of the claim of prior ignorance can be examined.

149. I therefore find that the common basis advanced by Noticee Nos. 2 and 3 is legally and factually unsustainable. The absence of Board approval establishes lack of authorisation and not absence of individual knowledge. ZEEL's absence from the Loan Agreements only establishes that it was not the borrower, not that its property (Hyderabad Land) was never purportedly deployed. The alleged lack of legal sanctity of the 2018 D&A concerns its enforceability and not the knowledge of the persons connected with its execution and purpose.

150. The respective knowledge of Noticee Nos. 2 and 3 must accordingly be determined from the specific evidence and circumstances relating to each of them, considered cumulatively and on the standard of preponderance of probabilities.

151. In the above context, I first consider the knowledge of Noticee No. 3. The 2018 D&A bears his signature and records that he executed it as the authorised signatory of ZEEL. Noticee No. 3 has not alleged that his signature on 2018 D&A was forged, fabricated or obtained without his consent. He has also not categorically denied the execution of the document. His case is only that he does not remember signing or executing it.

152. A statement that a person does not presently remember signing a document is not equivalent to a denial that he signed it. Such absence of recollection cannot displace a document bearing his signature, particularly when the document specifically identifies ZEEL's Hyderabad property, refers to its original title deeds and records the purpose for which those deeds were to be retained by the lender.

153. The 2018 D&A was also not a document capable of being signed without understanding its essential nature. It concerned a specific immovable property of ZEEL and acknowledged its use as security for the obligations of identified borrowing entities. The document itself supplied the subject matter, the asset and the purpose of the arrangement. Noticee No. 3 has not explained how his signature came to appear on such a document or why he represented himself as authorised to act for ZEEL.

154. The contention that the 2018 D&A lacked legal sanctity does not answer these circumstances. Legal validity is an argument on whether the document created an enforceable mortgage against ZEEL. Knowledge pertains to whether Noticee No. 3 signed the document and understood the purpose for which it was issued. Even if the document was unauthorised or if assumed legally ineffective, the person who consciously executed it cannot rely upon that defect to deny knowledge of his own act.

155. The absence of Board approval also does not assist Noticee No. 3's defence. The allegation against him is precisely that he acted without obtaining such approval. It cannot establish that he was unaware of the act which he personally undertook.

156. Noticee No. 3 has further stated that he was unaware that the original title deeds had been handed over to or were being retained by the lender (IHFL). This submission cannot be reconciled with the contents of the 2018 D&A. The document itself acknowledged the deposition of the title deeds, the property to which they related and the purpose for which they were being mortgaged including the loan details as per the four Loan Agreements dated December 13, 2016. A person executing such an acknowledgement cannot merely deny recollection without explaining the factual basis upon which the acknowledgement was made.

157. Schedule I-A of 2018 D&A provides '***Description of the Mortgaged Properties***' and the details contained therein are as follow:

'*Land admeasuring about 17,639.64 square meters equivalent to 21,458.89 square yards in Survey No. 403/1 part in T.S. No.1 part, Ward No. 9, Block 'F' situate, lying and being at Road No. 78, Jubilee Hills, Shaikpet Village, Hyderabad owned by ZEEL…*'

158. The above description is that of Hyderabad Land. I further note that the 2018 D&A further restricted ZEEL's right to the enjoyment of the said mortgaged property (Hyderabad Land) and also subjected any future change including selling, leasing etc. of the said property by ZEEL on the condition of prior obtaining a written no-objection certificate from IHFL.

159. The continued custody of the original title deeds of Hyderabad Land with the IHFL also gives practical effect to the representations contained in the 2018 D&A. The case is therefore not confined to a document which remained wholly unconnected with the property. The document and the custody of the title deeds operated together to hold out ZEEL's Hyderabad property as security for the obligations of the borrowing entities.

160. It is also material that Noticee No. 3 has not demonstrated that, when the 2018 D&A was subsequently relied upon in the arbitration or court proceedings, he alleged that his signature was forged or that the document had never been executed by him. Those proceedings provided a direct occasion to challenge the execution of the document. The failure to provide any poof of such case further weakens his present plea of lack of recollection.

161. The relationship of Noticee No. 3 with the borrowing entities and their ultimate beneficiaries (detailed in previous paragraphs of this Order) supplies further corroboration. The 2018 D&A was not executed to support the borrowing of an unrelated third party. ZEEL's property was purportedly deployed for entities connected with the promoter family and ultimately operating for the benefit of persons with whom Noticee No. 3 had a direct relationship. The beneficiary connection establishes the commercial rationale and purpose for which the document was executed and renders the defence of complete ignorance still less probable.

162. I therefore find that the grounds relied upon by Noticee No. 3 do not establish absence of knowledge. The document bearing his signature, his representation as ZEEL's authorised signatory, the specific contents of the 2018 D&A, the custody of the title deeds with the lender, IHFL, the absence of any plea of forgery or categorical denial of execution and his connection with the beneficiaries establish, on a preponderance of probabilities, that he consciously executed the 2018 D&A with full knowledge of its contents and purpose.

163. The case of Noticee No. 2 needs examination on a different footing. He was not a signatory to the 2018 D&A. Whether there was any knowledge on his part therefore cannot be inferred merely by placing him in the same position as Noticee No. 3. It should be considered from the circumstances specifically relating to him.

164. Noticee No. 2 relies principally upon the absence of his name from the 2018 D&A, the absence of direct communication with IHFL and his position that he had

no interaction with the borrowing entities or Noticee No. 3 concerning the transaction. These circumstances show that no direct written communication involving him has been produced. They do not, however, establish that he had no knowledge of the arrangement.

165. Knowledge need not arise only through direct interaction with the lender. The lender was merely the counterparty through whom the security arrangement was sought to be implemented. Knowledge could arise through the persons controlling the borrowing entities, members of the promoter family, internal management of ZEEL or the person who executed the 2018 D&A.

166. Therefore, relevant question is not whether Noticee No. 2 personally negotiated with IHFL. It is whether, considering his position, relationship with the beneficiaries, nature of the asset deployed and subsequent conduct, his claim of complete ignorance is probable.

167. Noticee No. 2 was the MD and CEO of ZEEL. This position, by itself, does not justify attributing knowledge of every transaction undertaken in the name of the Company. However, the present transaction was not an ordinary operational matter handled at a remote level. It concerned the original title deeds of a material immovable property of ZEEL and the purported use of that property as security for substantial borrowings of promoter-linked entities.

168. His position becomes relevant when considered with the purpose and beneficiaries of the transaction. Noticee No. 2 was a member of the same promoter family which exercised *ultimate control* over or stood connected with the borrowing entities. The security was therefore not created for an unrelated borrower whose affairs could reasonably have remained entirely outside his knowledge.

169. Noticee No. 2 has also denied awareness of the borrowing entities themselves. Such a denial has to be seen against the material concerning the ownership,

control and ultimate beneficiaries of those entities. Where the borrowing entities formed part of a promoter-controlled structure and ZEEL's property was used for their benefit, the assertion of the MD and CEO, who was himself a member of the promoter family, that he was unaware even of those entities does not carry any credibility.

170. The absence of a direct monetary benefit to Noticee No. 2 is also not relevant. The transaction need not result in a payment into his personal account for him to have knowledge of it. The benefit lay in securing or supporting the borrowings of promoter-linked entities through the use of ZEEL's property. A benefit to entities controlled by or connected with the promoter family remains relevant even if no individual receipt by Noticee No. 2 is shown.

171. The subsequent events provide an additional test of his denial. When the purported security over the Hyderabad Land surfaced in the arbitration and the proceedings before the Hon'ble Delhi High Court, ZEEL and its management became formally aware that the lender was asserting rights over the property on the basis of the 2018 D&A and was in custody of the original title deeds.

172. These later proceedings cannot, by themselves, retrospectively leads to knowledge in Noticee No. 2 as on December 27, 2018. A subsequent notice or court proceeding only establishes knowledge from the date on which the matter was brought to his or the Company's attention. It cannot automatically prove knowledge at an earlier point of time. However, the subsequent conduct is circumstantial evidence for testing whether the claim of earlier ignorance is acceptable. If Noticee No. 2 had, for the first time, discovered that a major asset of ZEEL had been offered as security without any authority for the benefit of promoter-linked entities, the ordinary corporate response would have been immediate and unequivocal.

173. Such response would reasonably include placing the matter before the Board, repudiating the 2018 D&A, demanding the immediate return of the title deeds,

identifying how the deeds left the Company's control, commencing an internal enquiry, fixing responsibility upon the persons involved and considering appropriate disclosure and legal action.

174. No material has been shown demonstrating that Noticee No. 2 initiated such immediate measures upon the alleged first discovery of the transaction. There is no record showing that he expressed surprise, disowned the conduct of Noticee No. 3, caused proceedings to be initiated against Noticee No.3 or treated the use of the property as an act wholly unknown to the management of ZEEL.

175. The absence of such action is relevant because it is inconsistent with the ordinary response expected from an MD and CEO who unexpectedly discovers that the Company's original title deeds and material immovable property have been used without authority to support the borrowings of other entities.

176. The subsequent inaction nevertheless corroborates the other circumstances indicating that the arrangement was not entirely unknown to Noticee No. 2 when it was executed. It also weakens the contention that knowledge arose only when the dispute was subsequently brought before the competent forums.

177. When these circumstances are considered cumulatively, the defence of Noticee No. 2 that he had no knowledge of the transaction merely because he did not correspond directly with IHFL or was not named in the 2018 D&A cannot be accepted.

178. Thus, the finding here against Noticee No. 2 does not rest solely upon his designation as MD and CEO. His position is one circumstance forming part of a broader evidentiary chain. The other circumstances include the use of ZEEL's property for promoter-linked entities, his relationship with the ultimate beneficiaries, the lack of credibility in his denial of awareness of those entities, the absence of any positive evidence insulating him from the transaction and the

absence of an immediate corporate response consistent with genuine first-time discovery.

179. In short, I note that in the instant case, I find that the knowledge of Noticee No. 3 stands established primarily through his own execution of the 2018 D&A and the surrounding circumstances demonstrating its purpose. The knowledge of Noticee No. 2 stands established through the cumulative circumstances connecting him with ZEEL, the borrowing entities, their ultimate beneficiaries and the conduct before and after the transaction formally surfaced.

180. The two findings corroborate each other. Noticee No. 3, who executed 2018 D&A, was the head of the promoter family and was connected with the borrowing entities. Noticee No. 2 was the MD and CEO of ZEEL, a member of the same promoter family and connected with the persons ultimately benefiting from the arrangement. The transaction involved the use of ZEEL's material asset not for its own business but for the borrowings of entities within that promoter-linked structure.

181. The defence that neither of them had knowledge would therefore require acceptance of the proposition that Noticee No. 3 signed a specific security document without knowing that he had done so and that Noticee No. 2 remained entirely unaware that ZEEL's original title deeds and property were being used to support the borrowings of entities connected with his own promoter family. Considered against the circumstances discussed above such an explanation is inherently not probable on preponderance basis.

182. I therefore find, on a preponderance of probabilities, that Noticee No. 3 executed the 2018 D&A with full knowledge of its contents and purpose and that Noticee No. 2 was aware of the arrangement under which ZEEL's Hyderabad property was purportedly deployed as security for the borrowing entities. Their respective denials of knowledge are accordingly rejected.

On no valid enforceable mortgage:

183. The Noticees has contented on the enforceability of the mortgage to defend its case on various fronts. As defence to the allegation for fraud, for instance, the contention of the Noticees is that the allegation of fraud can survive only upon proof of a legally valid and enforceable mortgage.

184. The Noticees, had, *inter alia*, questioned the validity of the said mortgage and the 2018 D&A on the ground that in absence of any authorisation by ZEEL, Noticee No.3, being NED, could not have unilaterally alienate ZEEL's property and pass on a better right than what vests in him i.e. possession of the Hyderabad Property to IHFL, that too without any authorization from the Company and/or its authorized representatives. Reliance for the said contention has been placed on the order of Hon'ble Supreme Court in the matter of ***Chintalapati Srinivasa Raju v. SEBI and Others*** *[(2018) 7 SCC 443]*.

185. It was argued by Noticee No. 1 and 2 that for creating a valid mortgage by deposit of title deeds, the conditions prescribed under Section 58(f) of the Transfer of Property Act, 1882, needs to be satisfied i.e. (i) there is a debt; (ii) the title deeds are deposited and (iii) the owner intends the deposit to operate as security for that debt. The SCN does not demonstrate any **<u>intention on behalf of the Company</u>** to create a mortgage on its Hyderabad Property in favour of IHFL. It is trite law that intention is the pre-requisite to create a valid mortgage by deposit of title deeds and whether intention exists is a question of law and fact as held by the Hon'ble Supreme Court in the case of ***K.J. Nathan v. S.V. Maruthi Rao*** *(AIR 1965 SC 430)*.

186. Further, it was contended that it is not SEBI's case that ZEEL owed any debt to IHFL and SEBI has not demonstrated how, when and by whom the original title deeds were deposited with IHFL, if at all. The rightful ownership and possession of the Hyderabad Property vested entirely and only with the Company at all points in time.

187. Noticee No. 2 submitted that if ZEEL were to create any interest or lien on the Hyderabad Property it would have to follow certain processes including – (i) obtaining requisite approval from the Board of Directors; (ii) executing and registering a valid mortgage deed in favour of the mortgagee (IHFL) and (iii) registering the charge under Section 77 of the Companies Act, 2013 in the Register of Charges. However, SEBI has not shown any of these acts to have occurred thereby failing to show the creation of a valid mortgage in favour of IHFL.

188. Noticee No. 1 further contended knowledge of ZEEL by submitting that No valid charge was created on the Hyderabad property in terms of Section 77 of the Companies Act 2013 with the Registrar of Company (RoC) either, thereby demonstrating that the Company was unaware of the creation of any mortgage on its property. The Company was neither a secured creditor nor a debtor for the purpose of the alleged transaction in terms of the SARFAESI Act. The Company was therefore not aware of the creation of any security interest on the CERSAI.

189. Noticee No. 2 regarding his knowledge of the said mortgage submitted that in the absence of any communication between IHFL and the Company, it is clear that the Company was not, in any manner, involved in the alleged creation of any mortgage on the Hyderabad Property and consequently, Noticee No.2 cannot be said to have any knowledge of the same.

190. As defence to the allegation for fraud, for instance, the contention of the Noticee Nos. 2 and 3 is that the allegation of *fraud*, can survive only upon proof of a legally valid and enforceable mortgage. It was also contented that ZEEL remained in physical possession of the Hyderabad land and IHFL did not ultimately enforce any security over it.

191. As noted above, Noticee Nos. 2 and 3 have cited the above reasons to contend that the mortgage is not valid or *void ab initio* and hence unenforceable.

192. In this context, it is relevant to note that the allegation in the SCN is not based upon the successful creation of a mortgage enforceable under the Transfer of Property Act. The gravamen of the allegation is that Noticee Nos. 2 and 3 devised and executed a scheme under which ZEEL's immovable property was, without the authority of the Company, purported to be offered as security for loans availed by borrowing entities whose ultimate beneficiaries were allegedly the family members of Noticee No.3 and Noticee No.2.

193. The expression "*mortgage*" used in the SCN, describes the manner in which ZEEL's property was allegedly sought to be deployed. The SCN also repeatedly uses the expression "pledge" while describing the same conduct. This shows that the substance of the allegation is the unauthorised use of the Company's property as security and not whether the documentation ultimately satisfied every legal requirement for creating an enforceable mortgage.

194. The PFUTP Regulations are directed against fraudulent acts, practices and courses of conduct. The relevant provisions do not qualify the expression "*act*" by requiring that the act must be legally valid, effective or enforceable. There is a clear distinction between the existence of an act and the legal efficacy of that act. Execution of a declaration offering the Company's property as security, acknowledgement of the lender's rights, delivery or continued retention of the original title deeds and representation that the property stood as security are acts of conduct. Whether those acts ultimately resulted in an enforceable mortgage is a separate civil law question. A defect affecting the legal efficacy of the transaction does not erase the acts already undertaken or render the underlying conduct factually non-existent.

195. The consequence of accepting the Noticees' contention may be tested through comparable instances of misuse of corporate assets. A scheme to misuse a company's shares may be carried out by purporting to pledge them in favour of another entity, even without any underlying loan or consideration. The persons concerned may execute pledge documents, issue instructions and represent that

the shares have been offered as security. The pledge may be argued as failing in law because of absence of consideration, authority or compliance with the prescribed procedure.

196. Similarly, as another instance, corporate receivables may be purportedly assigned or redirected for the benefit of a related entity without consideration or under a defective agreement. The assignment may be argued as legally failing because it was improperly executed, insufficiently stamped or lacked the necessary authority.

197. In both cases, the legal defect may prevent the creation of an enforceable pledge or assignment. It does not erase the acts undertaken to deploy or divert the corporate asset, the representations made to the counterparty, the intention behind the documentation or the risk to which the asset was exposed.

198. If the above contention of Noticee Nos. 2 and 3 is accepted, a scheme for diversion of corporate funds through the instrument of assignment of receivables could escape the very regulatory framework intended to prevent such diversion merely because *the assignment was legally defective or unenforceable*. A person may execute an assignment of receivables without any consideration and represent that the receivables stand transferred. The fact that the instrument subsequently may fails for want of consideration, cannot place the conduct outside regulatory scrutiny. Otherwise, the person responsible for the diversion would be permitted to rely upon defects in the very instrument used for carrying out the scheme and contend that no fraud occurred because the transfer was not legally perfected as no consideration was received by it for the assignment. Such an interpretation would defeat the preventive object of the regulatory framework by protecting diversion.

199. To hold otherwise would lead to an anomalous result. A person who successfully completes every legal formality in furtherance of an unauthorised scheme would attract regulatory action, whereas a person pursuing the same

scheme would escape merely because the documentation was defective. The regulatory consequence would then depend not upon the fraudulent character of the conduct, but upon the competence with which the scheme was executed. A person cannot be permitted to rely upon deficiencies in the very instrument used for the misuse as a defence that no fraudulent conduct occurred.

200. Such an interpretation would allow the person responsible to derive an advantage from the defect, illegality or absence of authority forming part of the misconduct. It would also reduce a preventive regulatory provision into one which becomes applicable only after the wrongdoer has successfully achieved the intended civil-law consequence.

201. Therefore, the question in the present proceedings is not whether the lender could ultimately enforce the purported mortgage in a civil court. The issue is whether ZEEL's property was, without authority, dealt with, represented or purported to be subjected to an encumbrance for the benefit of the borrowing entities and whether such conduct formed part of the fraudulent scheme alleged in the SCN.

202. Therefore, the enforceability of the underlying transaction due to the grounds mentioned by the Noticee Nos. 2 and 3 is not relevant to consider whether the conduct alleged is prohibited as fraudulent. The question is whether the persons concerned undertook acts, made representations or pursued a scheme intended to misuse, divert or expose the corporate asset for an unauthorised purpose. Once such fraudulent conduct is established, the failure of the transaction to create an enforceable mortgage, pledge, assignment or other legal right does not erase the acts already undertaken or take the conduct outside the prohibition. In my view enforceability concerns the civil consequence of the transaction while the PFUTP Regulations are concerned with the fraudulent character of the conduct itself. Hence, all the arguments forwarded by the Noticees questioning the validity of 2018 D&A are not accepted.

On no Benefit to Noticee Nos. 2 and 3

203. Noticee Nos. 2 and 3 contended that no benefit arose to them and in fact the property was later sold for profit by the Company.

204. I note that the benefit arising from the impugned transaction need not necessarily be in the form of money directly received by Noticee Nos. 2 and 3. A benefit may arise in several forms, including protection of the borrowing entities from enforcement action, preservation of their assets, deferment of their repayment obligations and continuation of their business without immediate action by the lender.

205. As already found, Noticee Nos. 2 and 3 exercised control over the borrowing entities and were their ultimate beneficiaries. Therefore, any arrangement which prevented or deferred action by the lender against such borrowing entities directly operated for the benefit of Noticee Nos. 2 and 3. The protection extended to the borrowing entities cannot be viewed as a benefit accruing only to borrower entities when those entities were controlled by, and ultimately operated for the benefit of, the said Noticees.

206. It is also relevant that Noticee Nos. 2 and 3 did not offer their personal properties as security for the liabilities of the borrowing entities. Instead, ZEEL's property was deployed to secure the borrowings of entities controlled by them. Consequently, the borrowing entities obtained protection from lender action without Noticee Nos. 2 and 3 exposing their own assets to any corresponding risk.

207. The benefit, therefore, consisted not only in preventing or deferring enforcement against the borrowing entities, but also in transferring the commercial risk associated with their borrowings to ZEEL. The property of a listed company was used to protect entities controlled by Noticee Nos. 2 and 3, while their personal assets remained unaffected. This itself constituted a *material advantage* accruing to them.

208. Accordingly, the use of ZEEL's property to prevent or defer lender action against the borrowing entities constituted a *benefit* to Noticee Nos. 2 and 3. The absence of any direct monetary receipt by them does not alter this conclusion.

Legal defences:

209. Noticee No. 3 contended that the allegation under the PFUTP Regulations proceeds by treating a private loan-related transaction and an internal corporate omission as securities-market fraud, though neither satisfies the essential requirements of dealing in securities and inducement.

210. First, as regards Clause 18 of the D&A, it was submitted that the alleged representation concerning the requisite approvals was made only to IHFL in the context of a bilateral lending arrangement. Even assuming that the representation was incorrect, it was a representation to a private lender concerning the security for loans availed by the borrowing entities. It was not made to investors, did not concern the purchase or sale of ZEEL's securities and was not intended to induce any person to deal in such securities.

211. Second, the alleged failure to disclose the dealing concerning the Hyderabad land to the Board of Directors was stated to be an internal governance issue. The Board is an organ of the company and cannot be equated with an investor or a participant in the securities market. Mere non-disclosure to the Board, without any further conduct connected with securities or any inducement to deal in securities, cannot constitute fraud under the PFUTP Regulations.

212. In the submissions, Noticee No. 2 and 3 have relied on the judgment of ***Securities and Exchange Board of India and Ors v. Kanaiyalal Baldevbhai Patel and Ors***. *(2017) 15 SCC 753*, and submitted that the judgment makes it clear that '*inducement' is required to constitute 'fraud' under SEBI PFUTP Regulations and must be made while 'dealing in securities' and must be made for*

the purpose 'to induce others to deal in securities'. Adding to this Noticee No. 2 submitted that, it is not SEBI's case that Noticee No.2 induced any person to deal in the securities of the Company and/or did any act or omission leading any person to deal in the securities of the Company. Further, Noticee No.2 did not make any promise, any reckless misrepresentation or false statement without reasonable ground for believing it to be true.

213. In support of these submissions, Noticee No. 3 relied upon the decisions in ***SEBI v. Kanaiyalal Baldevbhai Patel*** *[(2017) 15 SCC 753]*, the SEBI Final Order dated May 28, 2021 in the matter of ***Tatia Global Vennture Limited***, ***SEBI v. Terrascope Ventures Limited*** *(Civil Appeal Nos. 5209, 5211 of 2022; decided on March 17, 2026)* and ***Reliance Industries Limited v. SEBI*** *(Civil Appeal No. 4015 of 2020)*. It was contended that these decisions require a clear nexus between the alleged deceptive conduct and dealing in securities, including conduct intended to influence or induce an investment decision. It was further submitted that intention remains relevant and that every misrepresentation, contractual irregularity or internal non-disclosure cannot, merely by being described as deceptive, be brought within the PFUTP Regulations.

214. Third, Noticee No. 3 submitted that the necessary factual consequences of securities-market fraud are also absent. It was further contented that there is no injury or adverse effect was caused to investors or the securities market. The 2018 D&A neither caused any loss to ZEEL or its stakeholders nor resulted in any profit or unlawful gain to Noticee No. 3.

215. Accordingly, I note that the contention of Noticee No.3 is that the allegations are, at the highest, a representation made to a private lender and an internal non-disclosure within ZEEL. In the absence of any dealing in securities, inducement of investors, intention to influence an investment decision or impact upon investors or the securities market, the PFUTP Regulations are not attracted.

Consideration on legal defence

216. I have considered the aforesaid submissions. The principal contention of Noticee No. 3 is that the allegations relate, at the highest, to **an incorrect representation made to a private lender** and a failure to disclose the transaction to the Board of ZEEL. According to him, neither circumstance has any connection with dealing in securities or inducement of investors and, therefore, the PFUTP Regulations are not attracted.

217. On principle, there can be no disagreement with the proposition that every incorrect contractual representation made to a lender, or every failure to place a matter before the Board of a listed company, would not by itself constitute fraud under the PFUTP Regulations. The alleged conduct must have a sufficient nexus with the securities of the listed company and must satisfy the requirement of inducement to deal in securities.

218. However, the above submission proceeds by dividing the alleged scheme into isolated events and presenting them independently. That is not the scheme alleged in the SCN. The allegation is not merely that an incorrect representation was made to IHFL under Clause 18 of 2018 D&A, or that the transaction was not placed before the Board of ZEEL.

219. The allegation is that, after the borrowing entities failed to maintain the stipulated security cover for loans aggregating to ₹726 crores, Noticee Nos. 2 and 3 devised a scheme under which ZEEL's Hyderabad property was deployed, without ZEEL's authorisation, for protecting the borrowings of entities controlled by Noticee No. 2 and 3 and from which they were the ultimate beneficiaries. As a part of the said scheme, Noticee No. 3 executed the 2018 D&A in the name of ZEEL, represented that the requisite approvals had been obtained and handed over ZEEL's original title deeds to IHFL.

220. The role attributed to Noticee No. 2 is not that he personally made the representation contained in Clause 18 of 2018 D&A. The allegation against him arises from his knowledge of the dealing involving ZEEL's property, his position as the MD and CEO of ZEEL, and his subsequent representation to the Statutory Auditors vide Management representation letter dated May 27, 2019, which concealed the true reason for which the original title deeds were not in the possession of ZEEL.

221. Thus, the representation to IHFL and the omission before the Board are not the entire basis of the charge. They constitute the initial steps by which ZEEL's property was deployed outside its authorised corporate processes. The securities-market connection arises from the manner in which the transaction was concealed from the Statutory Auditors and, through them, from the investing public.

222. In this regard, I note, the Management Representation Letter dated May 27, 2019, signed by Noticee No. 2, positively represented that ZEEL had satisfactory title to all its assets and that there were no liens or encumbrances over them. In relation to the Hyderabad land, it merely stated that the original title deeds were not readily available with the Company.

223. Noticee No. 2 was aware that the original title deeds had been delivered and continued to remain with IHFL in connection with the borrowings of the borrowing entities. The representation nevertheless presented their absence as a matter concerning the physical availability of documents and withheld the material circumstance in which the title deeds had left the possession of ZEEL.

224. This was not merely an omission to inform the Board. It was a representation made to the Statutory Auditors for the purpose of the audit of the financial statements of a listed company. The natural and intended consequence of the management representation was that the information furnished therein would form the basis of the auditors' examination and would be reflected in the audited Annual Report placed before the shareholders and the investing public.

225. The said consequence, in fact, followed. Based on the information and explanations provided by the management, the auditors reported in the Annual Report for the financial year 2018–19 only that the original title deeds of the Hyderabad land were unavailable for verification. The Annual Report did not disclose that the title deeds had been delivered or retained in connection with loans availed by promoter-related entities, that ZEEL's property had been represented as security for such loans.

226. Consequently, an investor reading the Annual Report would understand that ZEEL continued to hold the property free from any third-party claim and that the only issue was the temporary or administrative non-availability of the original documents. The investor would not be informed that a property of ZEEL having a gross block value of Rs. 57.3 crores had been deployed in connection with liabilities of entities controlled by Noticee Nos. 2 and 3.

227. The submission that the alleged conduct had **no connection with securities**, therefore, cannot be accepted. The information was incorporated in the audited Annual Report of a listed company and was disseminated to its shareholders and the investing public. It related directly to the security of a material asset of ZEEL, its exposure to a lender's claim, the management's use of company property and the effectiveness of its corporate governance.

228. These matters were capable of influencing an investor's assessment of the value and risk associated with ZEEL's securities. An existing shareholder could, on the basis of the Annual Report, decide to continue holding the shares instead of selling them. A prospective investor could decide to purchase the shares on the understanding that ZEEL's material assets were unencumbered. Equally, a properly informed investor could have decided not to purchase the shares or to dispose of the shares already held.

229. In ***Kanaiyalal Baldevbhai Patel*** (*supra*), the Hon'ble Supreme Court explained that inducement is not confined to causing a positive act. A person may be induced

either to act or to refrain from acting on the basis of the facts and representations placed before him. The Court also recognised that the provisions of Regulations 3 and 4 are of wide amplitude, though the charge must be established from evidence and not conjecture.

230. It is relevant to note here, the ***inducement*** alleged in the present case does not arise from the representation made to IHFL. It arises from the materially incomplete account which reached investors through the audited Annual Report of ZEEL which is in the nature of omission. By presenting the issue as mere non-availability of the original title deeds, the Annual Report conveyed that there was no material risk or third-party claim concerning the property. Such information was capable of inducing investors to purchase, retain, sell or refrain from selling ZEEL's listed securities.

231. It is not necessary that the representation should contain an express invitation to buy or sell shares. An annual report is one of the principal documents through which the affairs, assets and financial position of a listed company are communicated to the market. Investors are expected to adjust their investment decisions on the basis of the information contained therein.

232. The ratio emerging from ***Terrascope*** *(supra)* is that conduct which may originate within the affairs of a company acquires a direct securities-market nexus when the true state of affairs is concealed from shareholders and the investing public through misleading corporate disclosures. The present case concerns precisely such a circumstance. The dealing involving ZEEL's property was not confined to an undisclosed internal transaction. Its true nature was withheld from the auditors and replaced in the Annual Report by an innocuous explanation regarding the availability of the title deeds. Therefore, the law laid down by the Hon'ble Supreme Court in ***Terrascope*** *(supra)* is also satisfied in the instant case. In view of the nexus to the dealing in securities, the contention raised by the Noticee quoting ***Tatia Global Vennture Limited*** *(supra)* cannot be accepted.

233. In the present matter, the asset of a listed company was deployed for protecting the liabilities of promoter-related borrowing entities. The true reason for the non-availability of the title deeds was withheld from the Statutory Auditors. The resulting auditors' report formed part of the Annual Report disseminated to investors. The information withheld related to the risk attaching to ZEEL's property and to the conduct of its management. Thus, the link between the scheme, the market-facing representation and the investment decision is very much present.

234. Noticee No. 3 has further relied upon the judgment in ***Reliance Industries Limited v. SEBI*** *(2026 INSC 585* | *Civil Appeal No. 4015 of 2020* | *Decided: 29 May 2026)* to contend that *intention* and *inducement* are essential. The Hon'ble Supreme Court has clarified that inducement remains a strict requirement for establishing fraud. It has also held that where injury to an investor is not established, wrongful intention must be demonstrated from cogent attending circumstances; for instance, the manipulative conduct, conversely, where mala fide intention is clearly established, separate proof of injury is not indispensable.

235. In the present case, the requirement of ***inducement*** is satisfied by the transmission of the materially misleading information to the investing public through the Annual Report. The investors were presented with an audited statement which indicated that the title deeds were merely unavailable for verification, without revealing the dealing with IHFL and the exposure of ZEEL's property to a claim arising from the borrowings of other entities.

236. The lack of or presence of ***intention*** on the part of Noticee No. 3 has to be determined from the cumulative circumstances and not merely from Noticee denial of mala fides. Noticee knew that ZEEL's original title deeds had been delivered and retained in connection with the liabilities of the borrowing entities. Despite such knowledge, Noticee No. 2 positively represented that there were no liens or encumbrances and described the absence of the title deeds without disclosing the transaction with IHFL.

237. Had the matter been an innocent or administrative case of unavailable documents, there would have been no reason to omit the identity of the person holding the deeds, the purpose for which they had been handed over, the 2018 D&A executed in ZEEL's name, and the lender's assertion that the property stood as security. The selective disclosure of the absence of the title deeds, coupled with the suppression of the known reason for such absence, supports the inference that the transaction was intended to be presented in a benign form.

238. This inference is further strengthened by the surrounding circumstances. ZEEL's property was deployed to protect borrowing entities controlled by Noticee Nos. 2 and 3, without their personal properties being exposed to a corresponding risk. The intention on the part of Noticee No. 3 could further be seen from the pending personal guarantee in respect of the loan taken by the four borrowing entities from IHFL vide loan agreements dated December 13, 2016 and the false declaration made to the lender that necessary approvals are in place. The arrangement continued to protect those entities from lender action, while the true position remained outside the knowledge of the auditors, shareholders and investors. The injury to the investors is loss of this material information.

239. Further, the definition of fraud under the PFUTP Regulations does not make wrongful gain or avoidance of loss an indispensable requirement in every case. This position has been so held by the Hon'ble Supreme court in para 40 of the judgement of ***Terrascope Ventures*** (Supra). The position was reiterated by the Hon'ble Supreme court in in the ***Reliance Industries Limited v. SEBI*** (supra) in the following lines *"As discussed hereinabove, the language of the Regulation 2(1)(c) places no requirement to prove wrongful gain or avoidance of loss*." The absence of direct monetary gain may be relevant while considering the gravity and consequences of the violation, but it does not by itself disprove a deceptive scheme otherwise established from the material on record.

240. For the same reason, ZEEL's continued physical possession of the land does not negate the conduct alleged. The risk did not arise from loss of physical

possession of ZEEL. It arose from the delivery of the original title deeds, the execution of a document representing ZEEL's property as security and the possibility of the lender asserting rights against the property. I note that the fact that deeds were later recovered after the loan was settled and sold at a profit goes, at best, acts as a mitigating factor and does not retrospectively cure the fraudulent character of the original transaction or the false certification, both of which were complete at the time they were committed.

241. Accordingly, I find that the defence incorrectly treats the representation to IHFL and the non-disclosure to the Board as the entirety of the allegation. If these two circumstances had stood alone, the objection regarding the absence of a securities-market nexus would have stood differently. However, they did not stand alone.

242. The evidence establishes a continuous course of conduct commencing with the unauthorised deployment of ZEEL's property for protecting entities controlled by Noticee Nos. 2 and 3 and continuing through the withholding of the true nature of the transaction from the Statutory Auditors. The resulting Annual Report conveyed a materially incomplete and misleading account to investors concerning a valuable asset of ZEEL. The argument of the Noticees that there was no price analysis in the SCN showing impact on the scrip of company due to the said transaction cannot be accepted as actual impact/loss is not relevant.

243. I, therefore, find that the necessary connection with listed securities is established through the dissemination of the misleading account in the audited Annual Report. The inducement is established by its capacity and purpose to influence investors to purchase, sell or retain ZEEL's securities and intention is established from the knowledge of Noticee No. 3, the selective nature of the representation and the surrounding circumstances of the scheme.

Aiding and abetment

244. It was alleged in the SCN that Noticee No.2 aided the fraud by failing to prevent or disclose these deceptive practices. The same was alleged from the fact that the Management Representation letter dated May 27, 2019, to the Statutory Auditors stating there are no liens or encumbrances on the company's assets, was signed by Mr. Punit Goenka. Considering that he and his family members were the beneficiaries of the entities getting benefit from the transaction and the matter also became part of litigation before the Hon'ble Delhi High Court, Mr. Punit Goenka had complete knowledge of the same.

245. Noticee No.2 contested the allegation questioning the legal validity of 2018 D&A, absence of his knowledge regarding the said document and his representation in the said management representation letter being provided under genuine belief and as per the findings of the Statutory and Independent Auditors of ZEEL at the relevant time.

246. In view of the above contention, it needs to be determined is whether Noticee No. 2, despite not executing the document, performed the part necessary to enable the arrangement to continue and achieve its purpose.

247. A meeting of minds need not invariably be proved through an express agreement, written instruction or record of a meeting. It may be inferred from coordinated conduct where the acts and omissions of the persons concerned are complementary, directed towards the same result and cannot reasonably be explained as independent or accidental conduct.

248. Noticee No. 3 created the appearance that ZEEL had authorised the use of its property. However, that appearance could continue only so long as it remained unchallenged by ZEEL. Once Noticee No. 2 became aware that ZEEL's property had been represented as security for promoter-related borrowing entities without the approval of the Board or Audit Committee, he had the authority and

responsibility, as the MD and CEO, to bring the arrangement to an end. He did not do so. The first expected step was to place the matter before ZEEL's Board. That would have exposed the absence of authority, the risk to ZEEL's property and the false representation concerning corporate approval. Noticee No. 2 did not place the matter before them. His omission therefore prevented the corporate organs capable of examining and taking further suitable steps.

249. The next expected step was to repudiate the 2018 D&A before IHFL. Noticee No. 3 had represented that ZEEL had authorised the use of its property. If ZEEL had not authorised it, Noticee No. 2 was expected to immediately inform IHFL that Noticee No. 3 lacked authority, that no corporate approval existed and that ZEEL did not accept the document. However, no repudiation of this nature has been demonstrated. Noticee No. 3 created the representation of authority, while Noticee No. 2 allowed that representation to remain uncorrected.

250. The original Titles deeds of Hyderabad Land continued to be available with IHFL gave practical effect to the position created through the 2018 D&A. Noticee No. 2, being responsible for the management and protection of ZEEL's assets, was expected to seek their immediate return or commence appropriate proceedings for their recovery. However, no prompt action of this nature has been shown. Thus, even though Noticee No. 2 may not have personally delivered the title deeds, his failure to recover them enabled their continued use in connection with the obligations of the borrowing entities.

251. ZEEL's defence is that its then Chairman unauthorisedly used a material corporate asset without the knowledge or approval of the Company. If that were the genuine corporate position, it would ordinarily have resulted in an immediate investigation into how the document was executed, how the title deeds came to be used, who facilitated the arrangement and why a false statement regarding approval was made. However, no specific evidence on this point of investigation or action against Noticee No. 2 has been demonstrated. This allowed his conduct to remain unexamined and protected the arrangement.

252. Further the submission that ZEEL filed an application seeking for deletion of the company as one of the parties to the arbitration proceedings, does not help to prove ZEEL's case as the said application was filed only after fulfilling the condition i.e. repayment of Rs. 225 crores to IHFL, towards the principal amount of loan, upon which the title deeds of Hyderabad Land were returned to ZEEL. Instead in the said application for deletion, ZEEL had acknowledge the handing over of title deeds of Hyderabad Land to IHFL upon entering the 2018 D&A.

253. Noticee No. 2 also did not disclose the connected interest in the borrowing entities. It has already been found that the ultimate voting and decision-making interests of the borrowing entities were traceable to Noticee Nos. 2 and 3 and their family members. By not disclosing this relationship, Noticee No. 2 prevented the independent directors from understanding the purpose for which ZEEL's property had been deployed and from examining whether the arrangement benefited promoter-related entities at the expense of ZEEL and its public shareholders. No timely examination or corrective disclosure has been demonstrated. Consequently, the arrangement remained outside ZEEL's governance and public-disclosure framework.

254. The acts of the two Noticees, No. 2 and 3, therefore complemented each other. Noticee No. 3 created the appearance of corporate authority. Noticee No. 2 preserved it by not repudiating it. Noticee No. 3 connected ZEEL's property with the liabilities of the borrowers. Noticee No. 2 enabled that connection to continue by not recovering the title deeds. Noticee No. 3 kept the transaction outside the approval process. Noticee No. 2 ensured that it remained outside the Board and Audit Committee even after formally acquiring knowledge. Noticee No. 3 created the initial exposure. Noticee No. 2 enabled its continuation and concealment.

255. Each Noticee performed the part necessary for achieving the common result. The affirmative act of Noticee No. 3 would have been exposed and neutralised had Noticee No. 2 exercised his authority to disclose, repudiate and correct it. The

omissions of Noticee No. 2 therefore supplied the continuing assistance without which the arrangement could not have remained operative and undisclosed. His omissions directed towards preserving the result produced by Noticee No. 3.

256. Noticee No. 2 had knowledge, authority and repeated opportunities to intervene. The property involved was a material asset of ZEEL. The entities benefited were controlled within the promoter-family structure. The transaction had bypassed the Board and Audit Committee. Yet, none of the safeguards capable of stopping or disclosing the arrangement was activated by him. Therefore, the contention that these were merely failures of supervision cannot be accepted.

257. The meeting of minds is accordingly established not from family relationship or designation alone, but from the complementary nature of their conduct. I therefore find that Noticee Nos. 2 and 3 acted with a common understanding and towards a common result. Noticee No. 3 executed and initiated the arrangement, while Noticee No. 2 aided and abetted him by enabling its continuation, preventing corporate scrutiny and allowing the resulting exposure to remain undisclosed. Their respective acts and omissions, when considered cumulatively, clearly establish a meeting of minds, with each Noticee performing the distinct but necessary part assigned to him in the common course of conduct.

Conclusion on the allegation of fraud:

258. From the above discussion, I find that Noticee Nos. 2 and 3 acted pursuant to a common understanding to deploy ZEEL's Hyderabad property for securing the borrowings of entities controlled by them and their family members, without obtaining the approval of the Board or Audit Committee. Noticee No. 3 executed the 2018 D&A in the name of ZEEL and represented that the requisite approvals had been obtained. Noticee No. 2, despite having knowledge of the arrangement and the authority to intervene, enabled its continuation by not placing it before the competent corporate organs, repudiating the 2018 D&A, recovering the title deeds

or initiating corrective action. Their acts and omissions were complementary and directed towards protecting the promoter-controlled borrowing entities through the unauthorised use of ZEEL's property and keeping the arrangement outside the scrutiny of ZEEL's Board

259. I further find that the scheme had the necessary nexus with dealing in ZEEL's listed securities. The true reason for the non-availability of the original title deeds and the exposure of ZEEL's property to the lender's claim were withheld from the Statutory Auditors and, consequently, concealed from the shareholders and investing public through the Annual Report. The materially incomplete account was capable of influencing investors in deciding whether to purchase, retain or sell ZEEL's securities. Accordingly, the knowledge, intention, benefit and meeting of minds of Noticee Nos. 2 and 3 stand established, and I find that they employed a deceptive device and participated in a scheme involving fraud in connection with dealing in ZEEL's securities, thereby violating Regulations 3 and 4 of the PFUTP Regulations read with Regulation 2(1)(c), as alleged in the SCN.

260. In view of the above, I note that Noticee No.3, then chairman of ZEEL, pledged the Hyderabad land of ZEEL with IHFL without obtaining requisite approvals. This deceptive practice resulted in the mis-utilisation and diversion of ZEEL's asset to benefit promoter-related entities. Noticee No.2, *inter alia,* by stating that there were no liens or encumbrances on the company's assets, is nothing but a scheme where misrepresentation and active concealment of fact despite having knowledge of such unauthorized pledge was made to investors. Hence, Noticee No.3 and Noticee No.2 have violated Sections 12A(a), (b) & (c) of SEBI Act, 1992 and Regulations 3(b),(c),(d), 4(1) & 4(2),(f),(k),(r) of PFUTP Regulations.

II. Whether Noticee No. 1 entered into related party transaction without prior approval of Audit Committee and hence violated Regulation 23(2) of LODR Regulations and whether Noticee No. 2 and 3 are also liable along with the company for the said violation?

261. It was alleged that the act of mortgaging of Hyderabad Land by Noticee No.3, on behalf of ZEEL, with IHFL for the loans taken by the borrowing entities, amounts to *related party transaction* between ZEEL and the borrowing entities and ZEEL failed to take the approval from audit committee prior to entering in the said transaction as per the requirement of Regulation 23(2) of SEBI LODR Regulations.

262. In their submissions, the Noticees contested the classification of the borrowing entities as *'related parties'* of ZEEL and then further the '*related party transaction*' as alleged in the SCN.

263. The Noticees contended that the SCN has not established that Essel Home Pvt. Ltd. ('***Essel Home***') or the borrowing entities were *related parties* of ZEEL under the definition applicable during the relevant period.

264. The Noticees further contended that the SCN does not establish any relationship between ZEEL and IHFL or between ZEEL and the four borrowing entities. According to them, the material does not establish that any of those entities was controlled or jointly controlled by a person who was related to ZEEL under Ind AS- 24.

265. Regarding ***related party transaction*****,** it was contended by the Noticees that a related-party transaction necessarily requires a transaction between the listed entity and a related party. According to them, ZEEL did not enter into the Loan Agreements, did not borrow any money from IHFL and did not enter into any agreement with the borrowing entities for creation of security over the Hyderabad property.

266. It is further contended that no legally valid mortgage was created by ZEEL. The 2018 D&A was allegedly unauthorised and legally ineffective. Therefore, there was no valid transfer of any resource, service or obligation by ZEEL which could fall within the definition of a related-party transaction.

267. The Noticees also contended that ZEEL did not authorise, participate in or have knowledge of the transaction when the 2018 D&A was executed. The SCN was stated to be contradictory in describing the transaction as unauthorised and undertaken without the knowledge of ZEEL and its Board, while simultaneously treating it as a transaction entered into by ZEEL.

268. According to ZEEL, the act was undertaken unilaterally by Noticee No.3 without invoking any corporate process. No Board or Audit Committee approval was obtained, no corporate record was altered, no statutory filing was made and no benefit accrued to ZEEL. Therefore, the act and intention of Noticee No.3 could not be attributed to the Company.

269. The Noticees further contended that approval by the Audit Committee is an *ex-ante* control which applies before the listed entity enters into its own transaction. Neither ZEEL nor its MD and CEO could have sought prior approval for a transaction which the Company neither authorised nor knew about when it allegedly occurred.

270. Reliance is also placed upon Section 177(4) of the Companies Act, 2013, to contend that the Audit Committee approves transactions entered into by the company with its related parties. An unauthorised act undertaken outside the Company's corporate machinery could not have been placed before the Audit Committee in advance.

271. ZEEL further contended that it first became aware of the alleged mortgage only when IHFL initiated proceedings under Section 9 of the Arbitration and Conciliation Act, 1996 before the Hon'ble Delhi High Court. The applications filed by ZEEL seeking deletion from those proceedings are relied upon to show that it consistently denied being a party to the mortgage, underlying loans or collateral arrangement.

272. ZEEL also characterises itself as the victim of the alleged unauthorised use of its property. It received no loan proceeds, consideration or commercial benefit from the arrangement. According to it, a company whose asset was allegedly misused without its authority cannot be treated as a participant in or beneficiary of a related-party transaction.

273. The Noticees further rely upon SEBI's interpretation of the definition of '*related party transactions'* under Reg. 2 (zc) of SEBI LODR Regulations as decided in SEBI Order dated September 18, 2025, titled *'Final order in the matter of Hindenburg Allegations against Adani Group with respect to transactions with Adicorp Enterprises Private Limited*' ('***Adicorp***') to contend that, prior to the 2021 amendment, the definition covered only transactions directly between a listed entity and its related party. Since the 2018 D&A was executed in favour of IHFL and no separate transaction was entered into directly between ZEEL and the borrowing entities, the arrangement is stated to fall outside the pre-amendment definition of related-party transaction.

274. Thus, the defence on the question of *related party transaction* is that there was neither a valid transaction of ZEEL nor a direct transfer of resources, services or obligations between ZEEL and the borrowing entities. Consequently, no obligation to obtain prior Audit Committee approval under Regulation 23(2) arose.

275. Upon examining the submissions of the Noticees w.r.t. the instant allegation, I note that the following questions therefore arise for determination:

1. *Whether ZEEL and the borrowing entities were related parties of ZEEL;*
2. *Whether the deployment of ZEEL's Hyderabad land as security for their borrowings constituted a 'related-party transaction' between ZEEL and the borrowing entities; and*
3. *If both questions are answered in the affirmative, whether ZEEL violated Regulation 23(2) by failing to obtain prior approval of the Audit Committee.*

276. Before proceeding to discuss the above issues, I note the aspect relating the validity and enforceability of the 2018 D&A has already been discussed.

I. <u>Related Party</u>

Whether ZEEL and the borrowing entities were *related parties*?

277. Regulation 2(1)(zb) of the SEBI LODR Regulations, as applicable during the relevant period, defined a "*related party*" by reference to Section 2(76) of the Companies Act, 2013 or the applicable accounting standards. The applicable accounting standard in the present matter is Ind AS 24.

278. As per Indian Accounting Standard ('Ind-AS') 24, '*a related party is a person or entity that is related to the entity that is preparing its financial statements ('reporting entity')*'.

'(a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control of the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.—

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) …

…

(ii) The entity is controlled or jointly controlled by a person identified in (a).'-

279. Under paragraph 9 of Ind AS 24, a person or a close member of that person's family is related to the reporting entity where that person is, *inter alia*, a member of the key management personnel of the reporting entity. An entity is, in turn, related to the reporting entity where it is controlled or jointly controlled by such a person.

280. ZEEL is the reporting entity for the present purpose. Noticee No.3 was its Chairman and Non-Executive Director, while Noticee No.2 was its Managing Director and CEO. The definition of key management personnel under Ind AS 24 includes persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Therefore, both Noticee No.3 and Noticee No.2 fell within the category of *key management personnel* of ZEEL.

281. Consequently, Noticee No.3 and Noticee No.2 were persons *related* to ZEEL under paragraph 9(a)(iii) of Ind AS-24. Their close family members were also covered within the same limb of the definition.

282. It has been found, in the previous issue, that Essel Realty, Essel Home and the borrowing entities formed part of a corporate structure whose ultimate voting and decision-making power was traceable to Noticee No.3 through Essel International and to Mrs. Sushila Goenka and Noticee No.2 through Essel Media Ventures. It has been already found in the previous issue that the borrowing entities are under the control of KMP of ZEEL Noticee No.3 (Chairman) and Noticee No.2 (MD) and their family member Mrs. Sushila Goenka (wife of Noticee No.3 and mother of Noticee No.2)

283. Once it is found that Noticee No.3 and Noticee No.2 were key management personnel of ZEEL, and that Essel Home and the borrowing entities were jointly controlled by them and their close family members, the consequence under paragraph 9(b)(ii) of Ind AS-24 follows. An entity controlled or jointly controlled by a person identified under paragraph 9(a) is *related to the reporting entity.*

284. I therefore find that the borrowing entities were *related parties* of ZEEL within the meaning of Regulation 2(1)(zb) of the SEBI LODR Regulations read with Ind AS-24. The first issue is accordingly answered in the affirmative.

II. Related Party Transactions

285. The next question relates to examination of whether the deployment of ZEEL's Hyderabad property constituted a transfer of resources, services or obligations directly between ZEEL and the borrowers.

286. Regulation 2(1) (zc) of SEBI LODR Regulations, as applicable during the relevant period reads as follows: -

> *"(zc) related party transaction" means a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:*
> *Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s)"*

287. The above provision defined a related-party transaction as a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price was charged. The definition therefore focuses on the transfer of the resource, service or obligation and not merely on the existence of a conventional bilateral contract or payment of consideration.

288. In the present case, the borrowing entities had availed loans from IHFL. The obligation to repay the loans and to furnish the stipulated security was therefore their obligation. ZEEL had not availed the loans and had no independent obligation to provide its property as security for such borrowings.

289. However, by execution of the 2018 D&A in the name of ZEEL and by representing that the original title deeds of the Hyderabad property were deposited and would continue to be held as security, ZEEL's property was made available to secure the obligations of the related-party borrowers. Thereby the obligation of the borrowing entities to provide security for their loans was transferred by the borrowers to ZEEL and performed through the property of ZEEL.

290. The fact that no consideration was paid to ZEEL does not take the transaction outside the definition. The definition expressly applies regardless of whether a price is charged.

291. The Noticees contend that there was no transaction between ZEEL and the borrowing entities because ZEEL was not a party to the Loan Agreements and the 2018 D&A was executed in favour of IHFL. This contention proceeds on an unduly narrow understanding of the transaction.

292. It is correct that IHFL was the lender and the person in whose favour the security was represented to have been created. However, the obligation which was secured was not an independent obligation owed by ZEEL to IHFL. It was the loan obligation of the borrowing entities. ZEEL's property entered the arrangement only because it was deployed to secure those obligations.

293. The role of IHFL was therefore that of the lender and security holder to whom the obligation was performed. It does not alter the identity of the persons whose security obligation was transferred from the Borrowers to the ZEEL. What matters is the transfer of security obligation between the listed entity, ZEEL and the related party borrowers. The instrument is necessarily executed in favour of the lender, as in this case the 2018 D&A, because the lender is the person entitled to hold or enforce the security. However, the related-party transaction lies in the listed company deploying its resource and assuming a security burden for the related party's obligation.

294. Therefore, the absence of a separate agreement executed directly between ZEEL and the borrowing entities does not mean that no transfer occurred between them. A transfer of an obligation may take place where one person performs or assumes, in favour of the creditor, an obligation which otherwise belonged to another person. The relationship is direct because the obligation assumed by ZEEL was the very obligation arising from the borrowing entities.

295. The contention that no valid mortgage came into existence also does not establish that no related-party transaction occurred. The legal enforceability of the purported mortgage and the factual deployment of ZEEL's resource are different questions. The 2018 D&A was executed in the name of ZEEL. It identified the Hyderabad property, referred to its original title deeds and recorded that the property was being made available as security for the obligations of the borrowing entities. The title deeds were in the lender's custody. These acts factually deployed and exposed ZEEL's resource for the benefit of the borrowers.

296. If enforceability were treated as a necessary condition, an unauthorised security transaction which successfully complied with every legal formality would fall within Regulation 23, while the same transaction undertaken for the same related parties would escape merely because the documentation was defective. The application of a preventive regulatory provision cannot depend upon the competence with which the unauthorised arrangement was executed.

297. The reliance upon the decision in the ***Adicorp*** also does not help the Noticees since the said matter is distinguishable factually as well as legally. In that matter the impugned transaction consisted of ICDs given by a listed entity to a third party which was allegedly thereafter transferred by the third party to so-called related parties of the listed entity. In that matter, the issue was whether transactions entered into by listed entities with an unrelated entity could be treated, under the pre-2021 definition, as related-party transactions merely because the funds were allegedly transferred through an intermediary entity thereafter for the benefit of related parties. The order held that, under the earlier definition, a transaction with an unrelated party followed by a separate indirect benefit to a related party was not covered.

298. The factual position here is different. Transfer of security obligation is direct here between the related party borrowers and the listed company, ZEEL. The issue examined in that case was whether the third party was a related party to the listed entity and the answer was in the negative and thereafter it examined the

pre-2021 definition of RPT. Unlike that matter, in the present Order it has already been established that the borrowers are the related party of ZEEL. There was therefore no unrelated intervening transaction and no subsequent transfer through a conduit. The very act undertaken by ZEEL was the performance of the security obligation of the related-party borrowers. The transaction was therefore direct in the relevant sense.

299. I therefore find that the deployment of ZEEL’s Hyderabad property and its original title deeds to secure the borrowings of Essel Home and the borrowing entities constituted a transfer of related party borrower’s security obligation to ZEEL and performance of the related parties’ security obligation. The arrangement accordingly constituted a related-party transaction under Regulation 2(1) (zc) of the SEBI LODR Regulations. Accordingly, this issue is decided in the affirmative.

300. Since the first two issues were answered in *affirmative* upon the examination above, now I shall examine whether ZEEL violated Regulation 23(2) of SEBI LODR Regulations by failing to obtain prior approval of the Audit Committee.

301. In examining whether ZEEL violated Regulation 23(2) of the LODR Regulations by not obtaining prior approval of the Audit Committee, it is necessary to determine whether the handing over and deposit of ZEEL’s original title deeds and the execution of the 2018 D&A by Noticee No.3 can be attributed to ZEEL. It is also necessary to consider whether the knowledge of Noticee No.2 concerning the transaction can be treated as the knowledge of ZEEL.

302. Where the statutory obligation and liability is imposed directly upon the company, in other words, inquiry into attribution is ordinarily not relevant for establishing the company’s liability, since the enquiry is simply whether the company complied with or breached that obligation. In the present case, however, attribution becomes necessary because ZEEL contends that the deployment of its title deeds and the execution of the 2018 D&A were unauthorised acts and,

therefore, could not be treated as acts of the company for examining its compliance with Regulation 23(2) of the LODR Regulations.

III. Rule of attribution

303. A company has a separate legal personality, but it has no body or mind of its own. It necessarily acts and acquires knowledge through natural persons. In ***Meridian Global Funds Management Asia Ltd. v. Securities Commission***, *[1995] 2 AC 500*, it was held that Board resolutions and constitutional documents constitute the primary rules of attribution, but they do not exhaust the circumstances in which the acts or knowledge of natural persons may count as those of the company.

304. In that case, two employees of Meridian, had improperly used their authority to purchase in the name of the company a substantial interest in Euro-National Corp. Ltd., a New Zealand listed company. Under the New Zealand Securities Amendment Act 1988, Meridian was required to give notice of its acquisition to the Stock exchange. The two employees knew this but the Board and the managing Director of Meridian did not and no notice was given. The Privy Council upheld the New Zealand Court's in decision holding that Meridian had contravened the law, on the premise that the knowledge of the employee would be attributed to Meridian.

305. Hon'ble Supreme court and Hon'ble High courts have discussed ***Meridian Global Funds Management Asia Ltd. v. Securities Commission***, [1995] 2 AC 500 (PC) as a leading authority on the doctrine of corporate attribution. Hon'ble Supreme Court of India in ***Indian Bank v. Godhara Nagrik Co-op. Credit Society Ltd***. *[(2008) 12 SCC 541]* referred to Meridian while explaining the "attribution approach" to corporate liability. The Gauhati High Court in ***Samsung India Electronics Pvt. Ltd. v. State of Assam*** *(Criminal Petition No. 82 of 2008; decided on July 26, 2012)*, The Orissa High Court in ***Hrudananda Biswal v. Union of India*** *[2021 Supreme(Ori) 504]* Himachal Pradesh High Court in

IndusInd Bank Ltd. v. State of H.P *(Cr. MMO No. 1070 of 2022; decided on August 05, 2024)* had discussed the Meridian case in the context of attribution.

306. As held in Meridian, where the primary rules and ordinary principles of agency do not provide a sufficient answer, attribution must be determined with reference to the language, content and purpose of the substantive provision. The question is whose act or knowledge was intended to count as that of the company for the purpose of the particular rule. This purposive approach was affirmed in Bilta and Singularis Holdings Ltd. v. Daiwa Capital Markets Europe Ltd., [2019] UKSC 50. Attribution is not uniform for every legal purpose. An act may not be attributed in proceedings brought by a company against a delinquent director, but may be attributed when determining the company's compliance with a statutory obligation.

Unauthorised mortgage and implied entrustment

307. At the outset, it is necessary to be clear on the present examination. The question is not whether Noticee No.3 possessed valid corporate authority to create a mortgage over ZEEL's property. The question is whether his act of handling and deploying ZEEL's title deeds, and the knowledge of Noticee No.2 concerning such deployment, should count as the act and knowledge of ZEEL for applying Regulation 23(2) of the LODR Regulations.

308. Corporate authorisation and corporate attribution operate in different fields. Authorisation determines whether the transaction was validly approved by the competent corporate body. Attribution determines whose conduct and knowledge should count as those of the company for enforcing a regulatory obligation. Therefore, an enquiry into whether Noticee No.3 was impliedly entrusted with the function of handling ZEEL's title deeds is not inconsistent with the allegation that the mortgage was unauthorised.

309. Implied entrustment in this context does not mean that ZEEL, through its Board, authorised the mortgage. It means only that, as a matter of corporate

functioning, Noticee No.3 was placed in a position to obtain, handle and deploy ZEEL's title deeds and make representations in ZEEL's name concerning its property.

310. The deposit of the title deeds could not have been effected merely through a personal representation by Noticee No.3. The Hyderabad property belonged to ZEEL, and its original title deeds were corporate documents under ZEEL's custody and control. Noticee No.3 obtained access to those documents and executed the 2018 D&A in ZEEL's name, representing himself as its authorised signatory and ZEEL as the owner and security provider.

311. Thus, ZEEL's property, original documents and corporate identity were deployed in the transaction. Their availability necessarily involved access to and exercise of control over a corporate function belonging to ZEEL. This supports implied entrustment of the limited function of handling and deploying the title deeds, without amounting to a finding that the mortgage was lawfully authorised. The subsequent conduct of the ZEEL, Noticee 2 and 3 therefore is not inconsistent with the implied entrustment by ZEEL.

Application of the Attribution test and Regulation 23(2) of SEBI LODR Regulations

312. Regulation 23(2), as applicable at the relevant time, required all related-party transactions to receive prior approval of the Audit Committee. It is an ex-ante safeguard intended to secure independent scrutiny before the assets, resources or obligations of a listed entity are deployed for the benefit of a related party.

313. The question under the Meridian purpose test is whose act and knowledge must count as those of the listed entity for giving effect to this obligation. In the present case, the relevant act is that of the person through whom ZEEL's property and title deeds were actually deployed. The relevant knowledge is that of the Managing Director responsible for the management of the Company's affairs and

compliance with its governance obligations. In this regard the discussion on the Knowledge of Noticee No. 2 and Noticee No. 3 has already been made under the heading "*knowledge*".

314. Noticee No.3 occupied the position of Chairman and Non-Executive Director of ZEEL and acted in ZEEL's name in relation to its property. Noticee No.2 was its Managing Director and CEO. Having regard to the corporate functions exercised by them in relation to the transaction, the same conclusion follows under the directing mind and will test.

315. In Meridian, the knowledge of the executives responsible for acquiring securities was attributed to the company because the statutory disclosure obligation could otherwise have been avoided by keeping the Board uninformed. Lord Hoffmann observed that the contrary interpretation would place a premium upon the Board paying as little attention as possible to the persons carrying out the relevant activity.

316. The same principle applies here. Regulation 23(2) of SEBI LODR Regulations cannot be confined only to transactions which management formally or voluntarily places before the Audit Committee. Its protection is most necessary where a related-party transaction is carried out outside the prescribed corporate process.

317. A contrary interpretation would invert the regulatory framework and defeat the regulatory purpose. A company which follows the prescribed process would subject the transaction to Audit Committee scrutiny, while a company in which its directors bypass that process could contend that the transaction was unauthorised and therefore not attributable to it. This would allow inadequate internal controls, non-recording of transactions and failure of senior management to place material information before the Audit Committee to become grounds for avoiding the regulatory obligation.

318. I therefore find that the handing over and deposit of ZEEL's original title deeds and the execution of the 2018 D&A by Noticee No.3 are attributable to ZEEL in the facts and circumstances of the case. Independently, the knowledge of Noticee No.2 concerning the deployment of ZEEL's property is also attributable to ZEEL. This attribution is made only for determining whether ZEEL's property was deployed in a related-party transaction and whether the obligation to obtain prior approval of the Audit Committee was attracted.

319. The Noticees contended that the requirement of prior approval did not arise because ZEEL and its Board neither authorised nor knew of the transaction. This contention mixes the absence of formal corporate approval with the absence of the transaction itself. Once the relevant act and knowledge are attributable to ZEEL, the Company cannot rely upon the fact that the transaction was kept outside its formal process to contend that the regulatory obligation never arose.

320. The contention based upon Section 177(4) of the Companies Act, 2013 does not alter this position. The fact that the Audit Committee acts within the terms specified by the Board does not permit persons managing or acting for the listed entity to keep a related-party transaction outside the corporate process and thereafter contend that the Committee could not have considered what was never placed before it.

321. The 2018 D&A was executed on December 27, 2018, and ZEEL's Hyderabad property was thereby deployed as security for the obligations of Essel Home and the borrowing entities. No prior approval of the Audit Committee was obtained before the transaction was entered into.

322. I therefore find that ZEEL entered into the impugned related-party transaction without obtaining prior approval of its Audit Committee. Accordingly, ZEEL violated Regulation 23(2) of the SEBI LODR Regulations.

Liability of Noticee No. 2 and 3

323. I shall now examine the liability of Noticee No. 2 and 3. They had contended that the pre-amended Section 27 of the SEBI Act, 1992, could not be invoked for fixing civil liability.

324. I note that the said contention can be accepted to the extent of ZEEL's failure to obtain prior approval of the audit committee for the impugned related party transaction which was entered on December 27, 2018. The amended Section 27 of SEBI Act, 1992, came into effect on March 8, 2019. Therefore, Section 27 cannot be invoked to impose civil liability upon Noticee No. 2 and 3 for ZEEL entering into the impugned related-party transaction without obtaining prior approval of its Audit Committee which occurred before the amendment of Section 27 of SEBI Act, 1992 came into effect.

III. Whether Noticee No.1 failed to comply with Ind-AS 24 and 37 in preparation and presentation of Financial Statements for the FY 2018-19 and 2019-20, as alleged in the SCN, and whether Noticee No. 2 and 3 are also liable along with the company for the said violation?

325. As discussed in the above issues, the borrowing entities were the *related parties* of ZEEL when the 2018 D&A was entered and the deployment of ZEEL's Hyderabad property and its original title deeds to secure the borrowings of Essel Home and the borrowing entities constituted a transfer of related party borrower's security obligation to ZEEL and performance of the related parties' security obligation. The arrangement accordingly constituted a *related-party transaction* under Regulation 2(1)(zc) of the SEBI LODR Regulations.

326. I also note that the said Hyderabad land was in control/possession of IHFL from December 27, 2018 to June 01, 2020. Hence, it was alleged that ZEEL failed to disclose the pledging of Hyderabad land with IHFL as *contingent liability* during FY 2018-19 till FY 2019-20 as during this period the said asset was pledged with

IHFL against the loan taken by the borrowing entities (Indian Accounting Standard **'Ind AS'**-37).

327. In view of the above, it was alleged that ZEEL failed to make relevant disclosures in compliance with the accounting standards on '*related party disclosures*' i.e. Ind AS-24 and '*contingent liability*' i.e. Ind AS-37 which led to misrepresentation of its financial position to the stakeholders.

328. Noticee No. 1 in its submission argued that since there was no valid mortgage as there was no intention of the company to create the mortgage nor any action was taken by the company towards the same, therefore there was no transfer of resources or obligations and hence there was no related party transaction that warranted disclosure under Ind AS-24 and the same was not applicable.

329. The above contentions of the Noticee have already been covered in the previous issue as it was observed there that the 2018 D&A entered by Noticee No.3, on behalf of ZEEL, resulted in *related party transaction* and hence ZEEL was liable to comply with the associated regulatory compliances ensuing from the said agreement.

330. One such compliance is making appropriate disclosures in the books of ZEEL as per the applicable accounting standards. I note that the said related party transaction triggered disclosures as per Ind AS-24 which deals with 'related party disclosures'. The said accounting standard deals with identifying related party relationships and the transactions and the disclosures to be made about those items.

331. In the instant matter, ZEEL, as discussed in preceding paragraphs, had failed both in identifying and disclosing the borrowing entities as *related parties* and resultantly failed in disclosing the related party transaction in its annual reports, financial statements etc. as per the applicable accounting standard i.e. Ind AS-24, which ZEEL, being a listed company, was liable to comply with under SEBI LODR Regulations.

332. With regard to the allegation of non-compliance of Ind AS-37, similar argument was forwarded and it was also submitted that there were no surrounding circumstances for the company to assume that the contingent liability was created on Hyderabad Land. For the same, ZEEL submitted that (i) non-registration of charge with RoC, (ii) Unaware of CERSAI Registration and (iii) under no obligation to check CERSAI registration, were taken as grounds to contend that there was no evidence to suggest that a valid first-ranking charge on Hyderabad land was created and hence there was no / remote possibility of financial loss to be caused tot the Company, hence Ind AS-37 disclosures were not required.

333. Noticee No.2 further contended that the Independent Auditor's Report for F.Y 2018-2019 also opined that the financial statements of the Company give the information required by the Companies Act, 2013 (the Act) in the manner so required and give a true and fair view in conformity with the IndAS prescribed under Section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended.

334. The fact that the original title deeds of Hyderabad land were handed over to IHFL for providing additional security to IHFL against the loans taken by the borrowing entities have already been proven in the previous portion of this Order. Further, it was also examined that the same was done with the knowledge of ZEEL on account of discharging obligation which resulted in transfer of related party borrower’s security obligation to ZEEL and performance of the related parties’ security obligation.

335. The fact that the same was not registered as Charge with RoC or the company was unaware with the CERSAI registration will not help the Company as those were only procedural requirements and the same cannot be taken as an excuse for non-compliance of accounting standards, the obligation of which is directly imposed upon the listed entity i.e. ZEEL. Also the opinion of the Independent Auditor Report cannot be taken as a defence as the information regarding mortgaging of Hyderabad Land with IHFL against loans taken by the related borrowing entities under 2018 D&A, was not disclosed by Noticee No. 2 and 3.

Hence, the Independent Auditors of ZEEL prepared the Report for FY 2018-19 and recorded their opinion therein without having knowledge of the said transaction.

336. IND AS-37 describes contingent liability as under:

"*A contingent liability is:*

*(a) a possible **obligation** that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or*

*(b) a present **obligation** that arises from past events but is not recognised because:*

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability."

Further the said provision says,

"86. Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect;

(b) an indication of the uncertainties relating to the amount or timing of any outflow; and

(c) the possibility of any reimbursement."

337. Since the placing of the title deeds of Hyderabad Land of ZEEL with IHFL for the purpose of providing additional security has already been discussed the same needs no further consideration. Additionally, I note that the 2018 D&A restricted the enjoyment of the said property with ZEEL and further put condition of seeking no-objection certificate from IHFL from IHFL if ZEEL wishes to dispose of Hyderabad Land.

338. Additionally, I note that the original title deeds were received back by ZEEL on June 01, 2020 only upon payment of Rs. 225 crores and the resulting subsisting of the mortgage thereafter (Hon'ble Delhi High Court Order dated March 14, 2022). The above discussion sufficiently proves that by entering the 2018 D&A, ZEEL assumed the obligation, which was contingent on the re-payment of loan amount fully or in part by the borrowing entities or on their behalf. The same has also been discussed in the previous issue while dealing with 'Related Party Transactions'. The accounting standard 'Ind AS-34' prescribes disclosing such obligations as *contingent liabilities* in the financials.

339. Hence, I note that ZEEL was required to comply with appropriate disclosure requirements under Ind-AS 37 in its annual reports, financial statements etc. as per the applicable accounting standard i.e. Ind AS-37, which ZEEL, being a listed company, was liable to comply with under SEBI LODR Regulations.

340. The above mentioned violations have resulted in misrepresentation of its financial position to the stakeholders.

341. In view of the above, I note that ZEEL, being a listed entity, did not abide by the principles governing disclosures provided under the SEBI LODR Regulations while disclosing its financials for the FY 2018-19 and 2019-20. Therefore, I note that ZEEL did not prepare and disclose the information in accordance with applicable accounting standards, it failed in implementing the prescribed accounting standards in letter and spirit in the preparation of its financial statements for FY 2018-19, taking into consideration the interest of all stakeholders this resulted in supplying misleading information both to the stock exchange and to the stakeholders.

342. Further, ZEEL failed to include the relevant information in its financials, as discussed above, made incomplete disclosures without taking into consideration the interest of all stakeholders and failed in preparing and disclosing the financial information / disclosure in accordance with the prescribed standards of accounting.

343. I note that by not complying with the accounting standards on related party disclosures i.e. Ind AS -24 and Contingent Liability (Ind AS-37) while preparing its financials during the FY 2018-19 and 2019-20, ZEEL has violated Regulation 4(1)(a),(b),(c),(h),(i), 4(2)(e)(i), 34(3) read with clause 1 of Part A of Schedule V and 48 of SEBI LODR Regulations.

Liability of Noticee No. 2 and 3:

344. I shall now examine the liability of Noticee No. 2 and 3. They had contended that the pre-amended Section 27 of the SEBI Act could not be invoked for fixing civil liability. He has also relied upon the decision of Hon'ble SAT in ***Reliance Industries Limited v. Securities and Exchange Board of India*** *(Appeal No. 87 of 2021; dated December 04, 2023)*, to contend that, in the absence of knowledge or active participation, they could not be held liable for the contravention committed by ZEEL.

345. It was further contended that since the provisions place the obligation relating to making disclosures and abiding by the Accounting Standards solely on the listed entity and not on any individual, they had no individual responsibility to adhere to the same.

346. The first contention, regarding the nature of the pre-amended Section 27, cannot be accepted as the amended Section 27 of the SEBI Act, 1992, came into effect on March 8, 2019. However, the violation for non-compliance of accounting standards (IND AS-24 and 37) against ZEEL has been found for the financial statements of FY 2018-19 and 2019-20. Hence, I note that the amendment of Section 27 came into force before the FY 2018-19 ended. Therefore, Section 27 can be invoked to impose civil liability upon Noticee No. 2 and 3 for ZEEL's failure in complying with the disclosure requirements as per the relevant accounting standards for the said FY i.e. 2018-19.

347. The primary obligation to make disclosure and abiding by the Indian accounting standards (Ind AS) rested upon ZEEL. However, the fact that the obligation was imposed upon the Company does not exclude the liability of the persons responsible for its affairs. Such liability has to be examined under Section 27 of the SEBI Act. Under Section 27(1), a person who was in charge of and responsible to the company for the conduct of its business may avoid liability by establishing that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent its commission. Under Section 27(2), where the contravention committed by the company was with the consent or connivance of, or was attributable to the neglect of, any director, manager, secretary or other officer, such person is also liable for the contravention.

348. It is relevant to note that the observation of the Hon'ble SAT in ***Reliance Industries Limited v. Securities and Exchange Board of India*** *(Appeal No. 87 of 2021; dated December 04, 2023)*

> *"81… in view of the stark evidence in the form of minutes of the two Board meetings of RIL which conclusively proves that the impugned trades were carried out by two senior officials without the knowledge of the appellant no liability can be fastened upon managing director in the facts of the given case. The burden under Section 27 was discharged by the managing director and the AO has miserably failed to prove that managing director was involved in the execution of the trades carried out by two senior executives."*

349. Thus, in the said case, the Managing Director was not held liable since the evidence established that the contravention had occurred without his knowledge and he had discharged the burden under Section 27. The facts of the present case are different. Noticee No. 2 and 3, both had knowledge of the 2018 D&A, their relation with the borrowing entities, the purpose for which the Hyderabad land was deployed and that the same was only returned to ZEEL in June 2020. This required disclosures in the financial statements of ZEEL.

350. Noticee No. 2 was the MD of ZEEL during the relevant period. Having knowledge of 2018 D&A, the lawful course available to him was to ensure that the said transaction was properly disclosed in the financials of the ZEEL. Noticee No. 2 has not shown that he took any step to cause ZEEL to make the required disclosures or that he exercised due diligence to prevent the contraventions. Rather, I note that Noticee No.2 signed the Management Representation letter dated May 27, 2019, and wrongly stated that there were no liens or encumbrances on the company's assets despite the knowledge that the original title deeds of Hyderabad Land were handed over to IHFL in terms of 2018 D&A.

351. As regards Noticee No. 3, he is signatory to the 2018 D&A and was also aware of the consequences of the transaction, his relation with the borrowing entities and the fact that the same became the subject matter of litigation before the Hon'ble Delhi High Court and IHFL released the pledged title deeds on June 1, 2020. However, he consented and connived with the company in not disclosing these in the financials of ZEEL for the relevant financial years.

352. Noticee No. 2 and Noticee No 3 are liable under Section 27(1) and 27(2) respectively of the SEBI Act, 1992 for not complying with the accounting standards on related party disclosures i.e. IND AS -24 and Contingent Liability (IND AS-37) while preparing its financials during the FY 2018-19 and 2019-20.

353. Noticee No. 2, being the MD of ZEEL during the period FY 2018-19 and 2019-20, when ZEEL failed to comply with the said accounting standards is also liable alongwith ZEEL. Hence, he has violated Regulation 4(1)(a),(b),(c),(h),(i), 4(2)(e)(i), 34(3) read with clause 1 of Part A of Schedule V and 48 of SEBI LODR Regulations r/w Section 27(1) of SEBI Act.

354. Since Noticee No.3 failed to disclose his connection with the borrowing entities to the management of ZEEL and signed 2018 D&A which resulted in pledging of the Hyderabad Land with IHFL, without obtaining requisite approvals and authorisation from the Board of ZEEL, hence, he is also liable for this instant

violation. Accordingly, Noticee No.3, then Chairman and NED of ZEEL, has violated Regulation 4(1)(a),(b),(c),(h),(i), 4(2)(e)(i), 34(3) read with clause 1 of Part A of Schedule V and 48 of SEBI LODR Regulations r/w Section 27(2) of SEBI Act.

IV. Whether the Noticee No. 2 and 3 impeded the independent directors and Audit Committee members from effectively discharging their responsibilities in violation of regulatory requirement due to alleged non-disclosure of material interest of Noticee No. 2 and 3?

355. I note that when the 2018 D&A was entered, Noticee No. 2 was Managing Director and Chief Executive Officer of ZEEL and Noticee No. 3 was Chariman as well as Non-Executive Director of ZEEL. Since they were at the Board of ZEEL as Directors and were the Key Managerial Personnel, they had to discharge various responsibilities under SEBI LODR Regulations and had to ensure that the functions of corporate organs created specifically to safeguard the interest of the stakeholders is not effected due to their actions / omissions.

356. As discussed in the previous paragraphs of this Order, Noticee No. 2 and 3, fraudulently misused the asset of ZEEL for the benefit of its related parties where these Noticees had interest as they alongwith their family members were the ultimate beneficiaries. However, the other members of the Board of ZEEL were kept uninformed.

357. As observed in previous issues, no such disclosure was made by either Noticee No. 2 or 3 regarding their association with the borrowing entities and their underlying interest. Further, the transaction emanating from 2018 D&A was also not disclosed and was only projected as a case of missing title deeds without disclosing the actual substance.

358. SEBI LODR regulations casts responsibility on the directors and KMPs of a listed company to facilitate the independent directors to perform their role effectively as a member of the board of directors and also as a member of a committee of board of directors. One of the critical committee of board of directors

is the Audit committee. These organs of a listed company provide financial oversight, objective judgment, and governance, acting as a vital check on the powers exercised by the executive and non-independent board members.

359. With regard to the instant matter, I note that any related party transaction needs to be approved by the audit committee which, I note from the previous issues, was not obtained while entering into 2018 D&A, by ZEEL despite the knowledge of Noticee No. 2 and 3. Noticee No. 2 and 3 failed to disclose their interest in the borrowing entities and in the resultant transaction. Had the transaction was placed before the audit committee, which comprised independent directors in majority, the same could have been scrutinised keeping the interest of company and shareholders at the forefront.

360. The fact that the transaction was kept a secret by Noticee No. 2 and 3 from the independent organs of ZEEL, viz., its Audit Committee and the independent directors, itself points towards the risky nature of the transaction which the said Noticees did not want the audit committee to scrutinise. The independent directors of listed company and the board committees can only discharge their functions effectively and in the best interest of all the stakeholders if the duties with regard to making appropriate disclosures are properly discharged by other directors and KMPs.

361. With regard to the allegation for the violation of various sub-clauses of Regulation 4 (2) of SEBI LODR Regulations, it was contended by Noticee No.3 that the same are in the nature of guiding principles for corporate governance as the provisions of Regulation 4 are designed to provide principles and guidance for the interpretation and application of the substantive provisions contained in Chapter IV of the LODR Regulations. It was further submitted that the substantive obligations in Chapter IV have to be complied with in light of the principles enshrined in Regulation 4. They are not standalone, independently enforceable obligations that can be invoked *de-hors* the substantive provisions they are designed to support. Hence, the purpose of Regulation 4(2) is to provide interpretive guidance, not to create independent sources of obligation and liability.

Further, it was argued that the obligation under these provisions are triggered only when a transaction qualifies as a Related Party Transaction.

362. The above contention of Noticee No. 3 is misplaced as it overlooked the fact that the SCN did not call upon the Noticee for the violation of these governing principles alone. There were other substantial provisions invoked against Noticee No.3 viz. violation of provision of SEBI Act, 1992 and PFUTP Regulations. Since Noticee No.3 breached the said substantial provisions, it was alleged that the principles governing disclosures and obligations were not complied. The same has been discussed in the instant issue. Had the Noticee complied with the 'Guiding Principles' provided under Regulation 4(2) of SEBI LODR Regulations while he was the NED and Chairman of ZEEL, the violations found in this Order could have been avoided.

363. Regarding the related party transaction argument, I note that the same has been discussed in this Order that 2018 D&A entered by Noticee No. 3 on behalf of ZEEL for the benefit of the borrowing entities does amount as Related Party Transaction. Further, the relevant approvals and disclosures were found to be lacking due to non-disclosure of interest by Noticee Nos.3 and 2.

364. Hence, I note that Noticee No. 2 and 3 impeded the independent directors and Audit Committee members of ZEEL from effectively discharging their responsibilities and failed to facilitate the independent directors to perform their role effectively as a member of the board of directors and also a member of a committee of board of directors and have resultantly violated Regulations 4(2)(f)(iii)(14) of SEBI LODR Regulations and are liable for penalty under Section 15HB of SEBI Act, 1992 r/w Section 11(4A), 11B (2) of SEBI Act, 1992 and appropriate directions under Sections 11(1), 11(4) and 11B(1) of SEBI Act.

V. Whether Noticee No. 2 and 3 breached the fiduciary duties of a director of the company and failed to monitor and manage conflicts of interest, prevent misuse of corporate assets and abuse of related party transactions, ensure

the integrity of ZEEL's accounting and financial reporting systems, and ensure compliance with applicable laws and standards?

365. SEBI LODR Regulations specifically requires the members of boards and key managerial personnel to disclose whether directly or indirectly they have any material interest in any transaction directly affecting the listed entity. I note that Noticee No. 2 and 3 failed to disclose their interest in the borrowing entities while placing ZEEL's property as security with IHFL on behalf of ZEEL.

366. Further, SEBI LODR Regulations, prescribes the key functions of the board of directors of listed entity which include, 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. Further, to ensure that 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.

367. I note that the unauthorised mortgage of Hyderabad Land where the original title deeds of the said property were removed from the possession of the company and was provided as security for the loans benefitting the related parties of Noticee No. 2 and 3 was in direct violation of above SEBI LODR Regulations.

368. Noticee Nos. 2 and 3 by undertaking such act not just failed in preventing the misuse of the corporate asset, but despite holding the highest position of MD and Chairman, respectively, themselves undertook to misuse the corporate asset and resultantly abused the related party transaction. The said acts of Noticee No. 2 and 3 strikes at the core of the securities laws framework the objective of which to ensure that the interest of public shareholders is not jeopardized due to the influence exercised by the individuals sitting at the position of authority.

369. To ensure that the interest of outside stakeholder in a listed company is not compromised, the management is entrusted with fiduciary duties so that the

people sitting in power and having unbridles access to the resources of the corporate entity do not abuse such corporate structure.

370. These Noticees, sitting at the helm of ZEEL, were executing transactions and moving the company's assets for benefitting the related entities where the ultimate benefit was flowing to them. Neither ZEEL was the party to the loan agreements nor the management of ZEEL was made aware of the same. Further, the said transaction was intentionally kept off the books of ZEEL and ultimately the shareholders were deprived from the material information.

371. It is understood that the related party transactions are privy to scrutiny by the audit committee of a company as a matter of diligence since the probability of misusing the resources of a corporate entity is highest in such transactions as conflict of interest is involved. Hence, a robust mechanism is envisaged in SEBI LODR Regulations to carry out such transactions upon disclosing the interest and the details of such transactions. In the instant matter, the same has been bypassed by Noticee No. 2 and 3 under their scheme and kept the management / investors aloof from any such details. The actions of Noticee No. 2 and 3 amounts to failure in disclosing their material interest in the transaction where the Hyderabad land was mortgaged as per 2018 D&A and also misuse of corporate asset and abuse in related party transactions.

372. This further resulted in misreporting in the financials of ZEEL as the resulting impact of the said transaction was not disclosed and recorded in ZEEL's financials.

373. As discussed in this Order, Noticee No.2 and 3 while being the Key Managerial Personnel of ZEEL, failed in disclosing to the board of directors of ZEEL their material interest in the said transaction directly affecting the listed entity. They also failed in 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 and in ensuring the integrity of ZEEL'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.

374. In view of the above, I note that Noticee No. 2 and 3 have violated Regulation 4(2)(f)(i)(1) and Regulation 4(2)(f)(ii)(6) & (7) of SEBI LODR Regulations and are liable for penalty under Section 15HB of SEBI Act, 1992 r/w Section 11(4A), 11B (2) of SEBI Act, 1992 and appropriate directions under Sections 11(1), 11(4) and 11B(1) of SEBI Act.

VI. Whether incorrect information was furnished during the SEBI investigation by Noticee No. 2?

375. I note that Noticee No.2 in his statement on oath before the Investigating Authority ('IA') under under Section 11(2), 11C (2) and 11C(3) of SEBI Act, 1992, on March 05, 2024 stated that he was not aware about the borrowing entities and also of the fact that the Hyderabad land was given as collateral for the loan given by IHFL to the borrowing entities. He further submitted that the management of ZEEL only became aware about the pledging of Hyderabad land by way of Independent auditor's report dated May 27, 2019.

376. The above statement of Noticee No.2 made under oath has been found to be incorrect as detailed in this Order and upon finding that Noticee No.2 was aware of the unauthorised mortgaging of Hyderabad Land since its inception and had devised the said scheme alongwith Noticee No.3. As I had noted in previous portion of this Order, Noticee No.2, in addition of being MD and CEO of ZEEL at the relevant time, was also the ultimate beneficiary of the borrowing entities and was exercising control alongwith Noticee No.3 and Mrs. Sushila Goenka. Further, the knowledge of Noticee No.2 regarding the said mortgage of Hyderabad Land has also been established in this Order.

377. Further, the statement of Noticee No.2 that the management of ZEEL only became aware about the pledging of Hyderabad land by way of Independent auditor's report dated May 27, 2019 was also contradictory as per the case of

ZEEL itself which in its submission had submitted that it was through the proceedings initiated by IHFL under Section 9 of the Arbitration and Conciliation Act, 1996 before the Hon'ble Delhi High Court the matter came to light of ZEEL. I also note that the said proceedings before the Hon'ble Delhi Court concerning 2018 D&A and the resulting mortgage was initiated prior to May 27, 2019.

378. Hence, I note that Noticee No. 2 by submitting incorrect and false statement have breached his duty under Section 11C (2) of the SEBI Act, 1992, which mandated providing correct information to SEBI during investigation.

379. In view of the above, I note that Noticee No. 2 have violated his legal obligations under Section 11(2), 11C(2), and 11C(3) of the SEBI Act, 1992, and is liable for penalty under Section 15A(b) of SEBI Act, 1992 r/w Section 11(4A), 11B (2) of SEBI Act, 1992 and appropriate directions under Sections 11(1), 11(4) and 11B(1) of SEBI Act.

VII. Whether the Noticee No.1 failed to disclose the fraudulent unauthorised pledge and the subsequent material developments, as alleged in the SCN and whether Noticee No. 2 and 3 are also liable along with the company for the said violation?

380. I note that the allegation is that ZEEL failed to disclose, first, the pledging of the Hyderabad land with IHFL on December 27, 2018 through the Declaration and Acknowledgement, wherein it was falsely represented that the requisite approvals had been obtained, and second, the subsequent material developments relating to the said event, namely, the Hyderabad land becoming the subject matter of litigation before the Hon'ble Delhi High Court, the furnishing of a non-disposal undertaking by ZEEL and the release of the pledged title deeds by IHFL on June 1, 2020.

381. The Noticees have contended that no disclosure obligation arose since there was no finding of fraud by SEBI, its statutory auditor or any other authority. It has further contended that, since there was no intention on the part of ZEEL to create

the mortgage, the transaction itself had not occurred and therefore no disclosure was required.

382. The Noticees have also submitted that the SCN has wrongly treated the temporary non-availability of the title deeds as fraud. According to ZEEL, its statutory auditor, Deloitte, had merely stated in the CARO Report that the title deeds of the Hyderabad property were not readily available for verification. This fact was disclosed in the Annual Report for the financial year 2018–19 and, therefore, there was no fraudulent act which remained undisclosed.

383. Further, it was submitted that if the mortgaging of Hyderabad land is alleged as material event in the SCN, requiring disclosure, the same does not trigger disclosure as per the quantitative threshold which was framed by ZEEL post amendment of Materiality Policy which came in effect from August 2020. Hence, even if this was a so-called 'transaction', considering that the Hyderabad Property’s net book value was Rs. 57.3 crores which was less than one percent of the company's consolidated net worth as well as turnover, thus inevitably falling below the 10 percent threshold specified in the materiality policy.

Consideration:

384. I have considered these submissions. The knowledge of ZEEL regarding the mortgage of the Hyderabad land (2018 D&A) has already been established in the preceding parts of this Order. Therefore, the contention that the Company had no knowledge of the mortgage and that no event had occurred cannot be accepted.

385. At the outset I note that the SCN does not allege the transaction i.e. Mortgaging of Hyderabad land vide 2018 D&A, as *material event*, hence the argument that the value of the said property was below the quantitative threshold prescribed in the Materiality Policy of ZEEL cannot be accepted. Moreover, the same came into effect only in August 2020, as submitted by the Noticees, hence not relevant.

386. The absence of authorisation by the Board does not mean that the event / transaction itself had not occurred. The allegation is that the original title deeds of ZEEL were deployed and the 2018 D&A was executed in the name of ZEEL for securing the borrowings of entities whose beneficiaries were Noticee Nos. 2 and 3, without obtaining the requisite corporate approvals. It is this unauthorised deployment of ZEEL's property for the benefit of Noticee No. 2 and 3 which constitutes the *material event*.

387. The contention that the SCN treats the mere non-availability of the title deeds as fraud is factually misplaced. The alleged fraud is not the temporary non-availability of the documents. It is the unauthorised pledging of the Hyderabad land for the benefit of entities connected with Noticee Nos. 2 and 3.

388. The disclosure in the Annual Report that the title deeds were not readily available did not disclose that the title deeds had been deposited with IHFL, that the 2018 D&A had been executed in the name of ZEEL, that the necessary approvals had not been obtained or that the transaction was intended to benefit entities connected with Noticee Nos. 2 and 3. Therefore, the disclosure regarding non-availability of the title deeds did not satisfy the requirement under Regulation 30, which mandates disclosure to the stock exchanges and on the website of company.

389. The complete facts relating to the execution of the 2018 D&A, the absence of authorisation by the Board and the interest of Noticee Nos. 2 and 3 in the transaction were not known to Deloitte. The responsibility for determining whether the event was required to be disclosed cannot be shifted upon the statutory auditor. The reliance placed upon the report of Deloitte is also misplaced.

390. I shall now deal with the contention that disclosure could arise only after a formal determination of fraud by SEBI or another authority. Item No. 6 of Para A of Part A of Schedule III, as it stood at the relevant time, provided as follows:

"The following shall be events/information, upon occurrence of which listed entity shall make disclosure to stock exchange(s)

A. Events which shall be disclosed without any application of the guidelines for materiality as specified in sub-regulation (4) of Regulation 30:

"6. Fraud/defaults by promoter or key managerial personnel or by listed entity or arrest of key managerial personnel or promoter."

391. The above provision does not state that the obligation to disclose fraud arises only after the passing of an order or a formal determination by SEBI, an auditor, a court or any other authority. Such a condition cannot be introduced into the provision when the language of the regulation does not provide for it. The obligation imposed by law, for instance the PFUTP Regulations, necessarily requires a person to assess his proposed conduct before undertaking it and to arrange his affairs so that the conduct does not fall within the prohibited sphere. Similarly, a listed entity, in this case, ZEEL is required to assess the facts known to it and determine whether the event falls within the disclosure requirement. If a person could avoid the consequences of law merely by contending that the conduct had not, at the relevant time, been declared unlawful or fraudulent by a regulatory or judicial forum, the preventive purpose of the legislation such as PFUTP Regulations, would stand defeated.

392. Therefore, the question whether a particular act falls within the description of fraud is, at the first instance, a matter of assessment by the listed entity whose affairs are affected by it. A prior declaration by another authority is not a condition precedent unless the regulation expressly provides so.

393. The disclosure obligation is intended to place material information before investors when the event occurs or becomes known to the listed entity. It cannot be postponed until the completion of an investigation or adjudication, which may take several years. Such an interpretation would render the disclosure

requirement ineffective during the very period when the information is relevant to the investors.

394. In the present matter, the disclosure was required to be made by ZEEL. The requirement did not compel ZEEL to pronounce a final adjudication of fraud. Item No. 6 was included in Para A of Part A of Schedule III and was therefore required to be disclosed without applying the guidelines for materiality under Regulation 30(4) of SEBI LODR Regulations. The event was deemed material under the Regulations since fraud by the promoter, key managerial personnel or the listed entity has the potential to affect the investment decisions of the existing and prospective shareholders.

395. Therefore, the contention based on ZEEL's materiality policy and the value of the Hyderabad property cannot be accepted. The quantitative threshold contained in the materiality policy was not applicable to an event falling under Item No. 6, which was required to be disclosed without applying any materiality threshold.

396. In view of the above, I find that ZEEL was required to disclose the fraudulent and unauthorised pledging of the Hyderabad land through the 2018 D&A dated December 27, 2018 to the stock exchange and in its website. ZEEL failed to make the said disclosure. The same is in violation of Regulations 30(1), 30(2), 30(6) (8) of LODR Regulations.

Updating material developments

397. Regulation 30(7) further required ZEEL to disclose material developments relating to the said event on a regular basis. The Hyderabad land subsequently became the subject matter of litigation before the Hon'ble Delhi High Court, ZEEL furnished a non-disposal undertaking in respect of the property and IHFL released the pledged title deeds on June 1, 2020. I note these were material developments directly arising from the original event. ZEEL failed to disclose these developments

to the stock exchanges and also failed to place the relevant information on its website despite the knowledge of the ZEEL.

398. The contention that SEBI’s reliance on the orders of the Hon’ble Delhi High Court is misplaced, as those proceedings did not examine or determine the existence or validity of any mortgage cannot be accepted as the material development disclosure does not concern the subject matter of the court proceedings. However, the Noticees have accepted that the title deeds were released pursuant to the Hon’ble Delhi High Court order dated June 01, 2020. The said fact is the *material development* w.r.t. the material event and warranted disclosure, which ZEEL failed to make.

399. In view of the above, I note that Noticee No. 1 has violated Regulations 30(1), 30(2), 30(6), 30(7) and 30(8) of the LODR Regulations read with Item No. 6 of Para A of Part A of Schedule III and is consequently liable for penalty under Section 15A(b) read with Sections 11(4A) and 11B(2) of the SEBI Act and for appropriate directions under Sections 11(1), 11(4) and 11B(1) of the SEBI Act.

Liability of Noticee Nos. 2 and 3:

400. I shall now examine the liability of Noticee No. 2. He had contended that the pre-amended Section 27 of the SEBI Act could not be invoked for fixing civil liability. He had also relied upon the decision in ***Reliance Industries Limited v. Securities and Exchange Board of India*** *(Appeal No. 87 of 2021; dated December 04, 2023)* to contend that, in the absence of knowledge or active participation, he could not be held liable for the contravention committed by ZEEL.

401. The first contention can be accepted to the extent of ZEEL’s failure to disclose the original event dated December 27, 2018. The amended Section 27 came into effect on March 8, 2019. Therefore, Section 27 cannot be invoked to impose civil liability upon Noticee No. 2 for ZEEL’s failure to disclose the original event which occurred before the amendment.

402. However, I note that the subsequent material developments occurred after March 8, 2019. The litigation before the Hon'ble Delhi High Court, the furnishing of the non-disposal undertaking and the release of the title deeds on June 1, 2020 gave rise to separate disclosure obligations under Regulation 30(7).

403. The argument that the said non-disposal undertaking before the Hon'ble Delhi High was submitted by the newly recruited individual dealing with the legal matters concerning IHFL of ZEEL and the same was not communicated to the management cannot be accepted as the same has not been substantiated with supporting documents. Further, it also not the case of the Noticees that the said act of the said individual dealing with the legal matters concerning IHFL of ZEEL was unauthorized and *ultra vires*.

404. The primary obligation to make disclosure under Regulation 30 rested upon ZEEL. However, the fact that the obligation was imposed upon the Company does not exclude the liability of the persons responsible for its affairs. Such liability has to be examined under Section 27 of the SEBI Act. Under Section 27(1), a person who was in charge of and responsible to the company for the conduct of its business may avoid liability by establishing that the contravention was committed without his knowledge or that he had exercised all due diligence to prevent its commission. Under Section 27(2), where the contravention committed by the company was with the consent or connivance of, or was attributable to the neglect of, any director, manager, secretary or other officer, such person is also liable for the contravention.

405. The above position has been confirmed by the Hon'ble SAT in its order of ***Reliance Industries Ltd. vs. SEBI*** (supra) as discussed at Para 349 of this Order.

406. Noticee No. 2 was the MD of ZEEL during the relevant period. Having knowledge of these material developments, the lawful course available to him was to ensure that the developments were disclosed by ZEEL to the stock exchanges and placed on its website. Noticee No. 2 has not shown that he took any step to

cause ZEEL to make the required disclosures or that he exercised due diligence to prevent the contraventions. He has therefore failed to establish that the contraventions occurred without his knowledge or despite the exercise of due diligence by him. His continued omission also demonstrates that he consciously failed to prevent the non-disclosure by ZEEL.

407. As regards Noticee No. 3, he is signatory to the 2018 D&A and is also aware of the Hyderabad land subsequently became the subject matter of litigation before the Hon'ble Delhi High Court, ZEEL furnished a non-disposal undertaking in respect of the property and IHFL released the pledged title deeds on June 1, 2020. However, he consented and connived with the company in not disclosing these material events.

408. The obligation under Regulation 30 of the SEBI LODR Regulations is imposed upon the listed entity. It is ZEEL which was required to assess the material event and make the necessary disclosure to the stock exchanges. The obligation was not one requiring Noticee No. 3, in his personal capacity, to submit a confession or admit the commission of an offence. The contention that disclosure would have compelled Noticee No. 3 to incriminate himself is also misplaced.

409. Further, the present proceedings are in respect of regulatory contraventions and not the compulsory extraction of testimonial evidence from an accused person in a criminal prosecution. Compliance with a statutory corporate-disclosure obligation cannot be avoided merely because the disclosure may reveal facts concerning the conduct of a director or promoter. Acceptance of such a contention would permit every director involved in a material irregular transaction to prevent disclosure by stating that the information may expose him to regulatory consequences. Such an interpretation would defeat the transparency framework under the SEBI LODR Regulations.

410. I therefore find that Noticee No. 2 and 3 cannot be held liable under Section 27 of SEBI Act, 1992 for ZEEL's failure to disclose the original event dated December

27, 2018 which happened prior to the amendment in section 27 of the SEBI Act. However, they are liable under Section 27(1) and 27(2) respectively for ZEEL's failure to disclose the post–March 8, 2019 material developments relating to the litigation, the non-disposal undertaking and the release of the title deeds.

411. Noticee No. 2 and Noticee No 3 are liable under Section 27(1) and 27(2) respectively of the SEBI Act for ZEEL's post–March 8, 2019 contraventions of Regulations 30(7) and 30(8) relating to the subsequent material developments and is consequently liable for penalty under Section 15A(b) read with Sections 11(4A) and 11B(2) of the SEBI Act, 1992 and for appropriate directions under Sections 11(1), 11(4) and 11B(1) of the SEBI Act, 1992.

VIII. Whether Noticee No.2 signed incorrect, false and misleading CEO-CFO certification for FY 2018-19 and 2019-20?

412. Noticee No. 2 have not disputed signing the CEO-CFO certificate for FY 2018-19 and 2019-20 of ZEEL wherein it was certified that the financial statements of ZEEL for the relevant financial years did not omit any material fact and were prepared in compliance with existing accounting standards.

413. However, it was alleged that despite the existence of unauthorized pledge and non-compliance with accounting standards in the preparation and presentation of financial statements for FY 2018-19 and 2019-20, Noticee No. 2 signed the said certificate and hence furnished incorrect, false and misleading information to the shareholders of ZEEL.

414. I note that CEO-CFO certification is placed in the Annual Reports and the same is provided to the shareholders. Since the certification and its content is signed by the highest personnel of the listed company i.e. CEO, it carries huge weightage and has potential to misled the investors in securities market both existing and potential.

415. Noticee No. 2 in his defence have pointed towards that portion of the said CEO-CFO Certificates where it is mentioned that,

'They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:'

And submitted that since the mortgage was unauthorised and Noticee No. 2 was bereft of knowledge of the same and he signed the said certificates as per the Independent Auditor's Report for F.Y 2018-2019 where they opined that the financial statements of the Company give the information required by the Companies Act, 2013 in the manner required and give true and fair view in conformity with the Indian Accounting Standards as prescribed.

416. As I have already examined in the previous issue that the knowledge of Noticee No. 2 regarding the said mortgage of Hyderabad Land with IHFL was there since its creation, the argument of the Noticee cannot be accepted. I note that Noticee No. 2 while signing the CEO-CFO certificate was having the requisite knowledge however, he failed to disclose the same and gave wrong certification.

417. Shifting onus to the Independent Auditor Report is also not going to help Noticee's case as the information was first needed, in the facts and circumstances of the case, to flow from the Noticees to the management and to the Auditors of ZEEL which, I have discussed in this order had not flowed and lead to creation of information vacuum between Noticee No. 2, 3 and the management / shareholders of ZEEL. Since, the auditors of ZEEL were not privy to the mortgage of Hyderabad Land by Noticee No.3 on behalf of ZEEL and 2018 D&A, their report consequently cannot be relied upon to the extent that the treatment of the undisclosed transaction (pledging of Hyderabad Land) is concerned.

418. In view of the above, I note that by signing CEO-CFO Certificate for FY 2018-19 and 2019-20, Noticee No.2 certified the incorrect, false and misleading statements contained in the said certificate, despite being aware of the

unauthorised mortgage of Hyderabad Land with IHFL against the loans taken by the promoter related parties, viz the borrowing entities. Hence, Noticee No.2 has violated Regulation 17(8) of the SEBI LODR Regulations. Consequently, Noticee No.2 is liable for penalty under Section 15A(b) of SEBI Act, 1992 r/w Section 11(4A), 11B (2) of SEBI Act, 1992 and appropriate directions under Sections 11(1), 11(4) and 11B (1) of SEBI Act.

IX. Whether Noticee No. 3, at the time of pledging Hyderabad land with IHFL on behalf of ZEEL, did not act in good faith, with due diligence and care and in the best interest of ZEEL and its shareholders and failed to maintain high ethical standards expected from a director as such act was not in the best interest of stakeholders including the listed entity itself and its shareholders?

419. Noticee No. 3 while entering the 2018 D&A and thereby transferring the original title deeds of the Hyderabad Land of ZEEL to IHFL, had declared that the requisite approval for the said transaction had been obtained knowing that no such approvals are in place. Noticee No. 3, being chairman of ZEEL at the time signed the 2018 D&A as an authorised signatory of ZEEL.

420. I note that prior to entering the 2018 D&A on behalf of ZEEL, IHFL issued Notices to the borrowing entities dated November 14 and 15, 2018, for shortfall of security cover for the said loans and sought to provide additional security and informed that upon such failure the securities provided shall be enforced. In response, vide an undertaking dated November 29, 2018, the borrowing entities promised prepayment of the loan amount of Rs.100,00,00,000/- on or before December 31, 2018 and the same to be appropriated towards the repayment of the principal of the loan and in case of any default, IHFL may take any legal action.

421. Thereafter, Noticee No. 3 had provided personal guarantee as security vide '*Deed of Personal Guarantee dated December 05, 2018*' for the loans taken by the borrowing entities from IHFL vide loan agreements dated December 13, 2016.

Hence, I note that, there was an imminent risk on the personal assets of Noticee No.3 in case the default by the borrowing entities continued. Also since Noticee No.3 was the *ultimate beneficiary* of the borrowing entities as has already been discussed in previous portion of this Order, any action by IHFL against the borrowing entities would have impacted Noticee No.3 and his family members.

422. Noticee No.3 being the chairman of ZEEL, misused his position and authority in ZEEL and handed over the original title deeds of the asset (Hyderabad Land) of ZEEL to IHFL by falsely declaring that the said action of the Noticee has approval of the management of ZEEL. Through such actions, the Noticee put the material asset of ZEEL at risk for his personal benefit. Being the Chairman and NED of a listed company this amounts to abuse of position and authority for personal benefit while risking the interest of the listed company and its shareholders.

423. Further, the fact that at no time the true nature of the said transaction was disclosed and the whole incident was projected as a mere misplacing of the documents, despite the same becoming the subject matter of litigation and arbitration, further shows the absence of good faith and intention to hide the material interest of the Noticee from the stakeholders.

424. By carrying out such acts, I note that Noticee No.3 did not act in good faith, with due diligence and care and in the best interest of ZEEL and its shareholders when he signed 2018 D&A. He further failed to maintain high ethical standards expected from a director and such act was also not in the best interest of stakeholders including the listed entity itself and its shareholders.

425. I view of the above, I note that Noticee No.3 has violated Regulation 4(2)(f)(iii)(3) & (6) of SEBI LODR Regulations and consequently is liable for penalty under Section 15HB of SEBI Act, 1992 r/w Section 11(4A), 11B (2) of SEBI Act, 1992 and appropriate directions under Sections 11(1), 11(4) and 11B (1) of SEBI Act.

X. *If the above issues are determined in the affirmative, what directions, if any, including the amount of monetary penalty, is required to be imposed on the Noticee(s)?*

426. I note that all the above issues have been determined in the affirmative, except Issue II, which has been proved only against Noticee No.1.

427. The penal provisions applicable to the violations established against the Noticees, as discussed in the preceding paragraphs, are discussed in subsequent paragraphs.

428. Section 15A(b) of SEBI Act, 1992, provides for penalty for failing to furnish information within the time specified as required under SEBI Act or any regulations made thereunder which shall not be less than one lakh rupees and may extend to one lakh rupees for each day during which the failure continues subject to the maximum of one crores rupees.

429. Section 15HA of the SEBI Act, 1992, provides for penalty for fraudulent and unfair trade practices which shall not be less than Rs.5 Lakhs but which may extend to Rs.25 Crores or 3 times the amount of profits made out of such practices, whichever is higher.

430. Section 15HB of SEBI Act, 1992, provides for penalty where no separate penalty has been provided, which shall not be less than Rs.1 Lakhs but which may extend to Rs.one crores rupees.

431. While determining the quantum of penalty under the SEBI Act, it is important to consider the factors stipulated in section 15J of the SEBI Act which are as follows:

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

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

(c) the repetitive nature of the default.

432. I have considered the provisions of Section 15J of the SEBI Act, 1992, which mandate that while adjudging the quantum of penalty under Section 15-I or 11B(2), due regard shall be had to the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default; the amount of loss caused to investors; and the repetitive nature of the default.

433. With regard to the second factor under Section 15J of the SEBI Act, 1992, though there is no material on record to demonstrate a directly quantifiable loss suffered by any specific investor or group of investors, it cannot be ignored that misuse of the Company’s asset is inherently detrimental to the interests of shareholders. Such misuse notionally diminishes the value of the Company and thereby affects investor interest. Nevertheless, in the absence of cogent material enabling computation of an apportioned or quantifiable loss to identifiable investors, the factor under Section 15J (b) cannot be applied in precise monetary terms.

434. As regards the repetitive nature of the default under Section 15J (c), no material has been placed on record to show that the Noticees have engaged in similar violations on earlier occasions so as to establish a pattern of repeated non-compliance. Accordingly, the element of repetition does not aggravate the quantum of penalty in the present case.

435. It was submitted that due to the widespread circulation of misinformation and negative public opinion against the Company, the Company appointed an Independent Investigation Committee ("**IIC**") headed by the Hon'ble Dr. Justice Satish Chandra, Retired Judge of the Allahabad High Court, to conduct an independent investigation into the affairs of the Company. This was duly disclosed by the Company vide a press release dated February 27, 2024. The IIC conducted a robust investigation into the affairs of the Company examining inter alia compliance with SEBI regulations, adequacy and effectiveness of internal controls and governance structures. I have taken note of this.

436. Accordingly, having taken into account (i) the unfair benefit derived through the unauthorised mortgage, (ii) the absence of quantifiable disproportionate gain or specifically ascertainable investor loss on record, and (iii) the lack of material indicating repetitive default, and counts of violations an appropriate and proportionate penalty has been considered for imposition.

437. Given the grave nature of the violations found in this order affecting the interest of the investors and the finding of fraud rendered, I find that Noticee Nos. 2 and 3 also be visited with an appropriate period of debarment. As regards the Noticee No. 1, it is not out of place to mention, one of the cornerstone of mitigation of conflict of interest is through scrutiny of the related party transactions. As found in the order, however, the company failed in discharging its obligation on the related party transactions. Hence the company is also liable for an appropriate period of debarment. In view of the above, I find that necessary directions are required to be issued and appropriate penalty is required to be imposed on the Noticees.

DIRECTIONS

438. Accordingly, in exercise of powers conferred upon me under Sections 11(1), 11(4), 11(4A),11B(1),11B(2)) read with Section 19 of SEBI Act and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules,1995 do hereby pass the following directions, in the interest of investors and market integrity:

a. Following Noticees are restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities (including units of mutual funds), directly or indirectly, or being associated with the securities market in any manner, whatsoever, for the following period, from the date of this order:

Name of Noticee	PAN	Period of Debarment
ZEEL	AAACZ0243R	**2 months (Two months)**
Mr. Punit Goenka	AAEPG2529E	**12 months (Twelve months)**
Mr. Subhash Chandra	AACPC4004A	**12 months (Twelve months)**

b. If the above Noticees have any open position in any exchange traded derivative contracts, as on the date of the order, they can close out /square off such open positions within 3 months from the date of order or at the expiry of such contracts, whichever is earlier. The above Noticees are permitted to settle the pay-in and pay-out obligations in respect of transactions, if any, which have taken place before the close of trading on the date of this order.

c. In addition, in exercise of powers conferred upon me under sections 11(4A) and 11B(2) of SEBI Act, 1992, the Noticees are hereby imposed with the penalties as provided below:

Noticee	Violations	Penal Provision	Amount (in Rs.)
ZEEL	Reg. 23(2) SEBI LODR Regulations	Sec. 15HB of SEBI Act	**20 Lakhs**
	Reg.4(1)(a),(b),(c),(h),(i), 4(2)(e)(i), 34(3) read with clause 1 of Part A of Schedule V and 48 of SEBI LODR Regulations	Sec. 15HB of SEBI Act	**5 Lakhs**
	Regulation 30(1)(2)(6)(7) and (8) read with item no.6 at Para A of Part A of Schedule III of SEBI LODR Regulations	Sec. 15A(b) SEBI Act	**5 Lakhs**
TOTAL			**30 lakhs**
Mr. Punit Goenka	Reg.4(1)(a),(b),(c),(h),(i), 4(2)(e)(i), 34(3) read with clause 1 of Part A of Schedule V and 48 of SEBI LODR r/w Sec. 27(1) SEBI Act, 1992	Sec. 15HB of SEBI Act	**8 Lakhs**
	Regulation 30(7) and (8) read with item no.6 at Para A of Part A of Schedule III of SEBI LODR Regulations r/w Sec. 27(1) SEBI Act, 1992	Sec. 15A(b) SEBI Act	**6 Lakhs**
	Sections 12A(a), (b) & (c) of SEBI Act, 1992 and Regulations 3(b), (c), (d), 4(1) & 4(2), (f), (k), (r) of PFUTP Regulations	Sec. 15HA of SEBI Act	**30 Lakhs**

Noticee	Violations	Penal Provision	Amount (in Rs.)
	Regulation 4(2)(f)(i)(1), Regulation 4(2)(f)(ii)(6) and (7), and Regulation 4(2)(f)(iii)(14) of the SEBI LODR Regulations	Sec. 15HB of SEBI Act	**4 Lakhs**
	Regulation 17(8) of the SEBI LODR Regulations	Sec. 15A(b) SEBI Act	**5 Lakhs**
	Sections 11(2), 11C(2) and 11C(3) of the SEBI Act, 1992	Sec. 15A(b) SEBI Act	**5 Lakhs**
	TOTAL		**58 Lakhs**
Mr. Subhash Chandra	Reg.4(1)(a),(b),(c),(h),(i), 4(2)(e)(i), 34(3) read with clause 1 of Part A of Schedule V and 48 of SEBI LODR Regulations r/w Sec. 27(2) SEBI Act, 1992	Sec. 15HB of SEBI Act	**8 Lakhs**
	Regulation 30(7) and (8) read with item no.6 at Para A of Part A of Schedule III of SEBI LODR Regulations r/w Sec. 27(2) SEBI Act, 1992	Sec. 15A(b) SEBI Act	**6 Lakhs**
	Sections 12A(a), (b) & (c) of SEBI Act, 1992 and Regulations 3(b), (c), (d), 4(1) & 4(2), (f), (k), (r) of PFUTP Regulations	Sec. 15HA of SEBI Act	**40 Lakhs**
	Regulation 4(2)(f)(i)(1), Regulation 4(2)(f)(ii)(6) and (7), and Regulation 4(2)(f)(iii)(14) of the SEBI LODR Regulations	Sec. 15HB of SEBI Act	**4 Lakh**
	Regulation 4(2)(f)(iii)(3) and Regulation 4(2)(f)(iii)(6) of the SEBI LODR Regulations	Sec. 15HB of SEBI Act	**2 Lakh**
	TOTAL		**60 Lakhs**

439. The Noticees shall remit / pay the said amount of penalty, within a period of forty-five (45) days from the date of receipt of this order, through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT -> Orders -> Orders of

EDs/CGMs -> PAY NOW. In case of any difficulty in online payment of penalty, the Noticee(s) may contact the support at portalhelp@sebi.gov.in.

440. The Noticee(s) shall forward details of the online payment made in compliance with the directions contained in this Order to the Division Chief, CFID SEC-4, 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:

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 or Disgorgement	

441. This order shall come into force with immediate effect.

442. A copy of this order shall be sent to the Noticees, all the recognized Stock Exchanges, Depositories Registrar, Transfer Agents of Mutual Funds to ensure that the directions given above are strictly complied with.

443. This order is signed both by physical and electronic signature.

N. MURUGAN Digitally signed by N. MURUGAN Date: 2026.07.31 21:04:03 +05'30'

Date: July 31, 2026
Place: Mumbai

N. MURUGAN
QUASI-JUDICIAL AUTHORITY
SECURITIES AND EXCHANGE BOARD OF INDIA