BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

(ADJUDICATION ORDER NO: Order/AS/RM/2024-25/30267-30270)

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995 AND RULE 4(1) OF THE SECURITIES CONTRACTS (REGULATIONS) (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 2005

In respect of:

Noticee	**Name of the Noticee**	**PAN**
1.	Prabhu Steel Industries Limited	AABCP0025E
2.	Harish Gangaram Agrawal	ABUPA3505F
3.	Dinesh Gangaram Agrawal	ABLPA5717E
4.	Akshita Harish Agrawal	BDEPA7767C

In the matter of Prabhu Steel Industries Limited

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") received a financial reporting quality review report dated February 14, 2022 (hereinafter referred to as "**FRQRR"**) from National Financial Reporting Authority (hereinafter referred to as "**NFRA**") in the matter of Prabhu Steel Industries Limited (hereinafter referred to as "**Company"**/"**PSIL"**/"**Noticee 1**") wherein it noted serious lapses with respect to accounting and auditing standards of PSIL. On receipt of the said report, SEBI conducted an investigation to ascertain if there was misrepresentation in financial statements of PSIL, under the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as **"SEBI Act**"), Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as "**SCRA**"), SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as "**LODR Regulations**") or any other rules or regulations made or directions issued by SEBI.

2. Based on the findings of the investigation, SEBI initiated adjudication proceedings against Prabhu Steel Industries Limited, Harish Gangaram Agrawal (hereinafter referred to as **Noticee 2**), Dinesh Gangaram Agrawal (hereinafter referred to as **Noticee 3**) and Akshita Harish Agrawal (hereinafter referred to as **Noticee 4**) (hereinafter referred together to as 'Noticees) under Sections 15HB of SEBI Act and Section 23A(a) and 23(H) of the SCRA for violation of the following provisions.

   a. **Noticee 1:** Regulations 4(1) (a), (b), (c), (g) and (h), 33(1) (a) (c), 48 and 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Section 21 of SCRA.

   b. **Noticee 2:** Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 48, 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Sections 21 & 24 of SCRA and Section 27 of the SEBI Act.

   c. **Noticee 3:** Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 33(2)(a), 48, 34(3) read with part B of Schedule V, 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA and Section 27 of the SEBI Act.

   d. **Noticee 4:** Regulations 33(2)(a), Regulation 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA.

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI appointed the undersigned as the Adjudicating Officer, vide orders dated October 14, 2022 and January 30, 2024, under Section 15-I of SEBI Act, and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **'SEBI Adjudication Rules'**) read with Section 19 of the SEBI Act, 1992; and Section 23-I of the SCRA and Rule of SC(R) ((Procedure for

Holding Inquiry and Imposing Penalties) Rules, 2005 (hereinafter referred to as '**SCR Adjudication Rules'**) to inquire into and adjudge under the provisions of the under Section 15HB of SEBI Act and Section 23A(a) and 23(H) of the SCRA for the violations alleged to have been committed by the Noticees.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. A Show Cause Notice No. SEBI/HO/EAD-8/AS/PA/57329/1 dated November 11, 2022 (hereinafter referred to as "**SCN"**) and a Supplementary Show Cause Notice No. SEBI/EAD/AS/RM/2024/6500/1-4 dated February 16, 2024 (hereinafter referred to as "**SSCN"**) were issued to the Noticees in terms of the provisions of SEBI Adjudication Rules and SCR Adjudication Rules, and sent and served to Noticees vide speed post acknowledgement due and email dated November 11, 2023 and February 16, 2024 respectively. I note that SCN and SSCN were successfully delivered through speed post and email.

5. The allegations levelled against the Noticees in the SCN and SSCN are summarized in the following paragraphs:

6. PSIL was incorporated in the year 1973 and its registered office is situated in Nagpur, Maharashtra. PSIL is currently a trader and supplier of qualitative assortment of HR sheet & plate, MS beam, channel steel, MS & HT angle, TMT bar, GC sheet, HT plate & sheet, MS plate & coil, GP sheet, and CR sheet. PSIL is listed on BSE platform, however, trading of its shares was suspended due to not submitting Company's annual report to the stock exchange and publication of the same on the Company's website as required under LODR Regulations for two consecutive years, March 2017 and March 2018. During the Investigation Period, the management of the Company was as under:

Sl No	Name of the director	Designation
1	Mr. Dinesh Gangaram Agrawal (Noticee 3)	Chairman and Managing Director
2	Mr. Harish Gangaram Agrawal (Noticee 2)	Whole Time Director
3	Mr. Krishankumar Agrawal	Independent Director
4	Ms. Sonali Paithankar	Independent Director
5	Mr. Pramod Kale	Independent Director
6	Mr. Radheshyam Agrawal	Independent Director

7. In FRQRR, NFRA observed that the Company has grossly violated the provisions of the Companies Act, 2013 and applicable Indian Accounting Standard Framework (hereinafter referred to as **"Ind AS Framework"**) while preparing the financial statements for the Investigation Period. The FRQRR was enclosed with SCN. The observations of NFRA recorded in the FRQRR was investigated from the perspective of securities market and related laws and the same are summarized in the paragraphs below. The violations alleged are categorized under: (A) Disclosure and presentation violations; and (B) Disclosure and misrepresentation of financials/information violations.

A. Disclosure and presentation violations: Non-compliance with applicable accounting standards framework and incomplete financial statements

<u>Non-compliance with applicable accounting standards framework</u>

8. NFRA observed the following contradictory disclosures in the annual report of PSIL for the FY 2019-20:

#	Particulars	Disclosures made
1.	Disclosure in the directors' report- standalone financial statement	*"The audited financial statement of the Company prepared in accordance with relevant **Accounting Standards issued by the Institute of Chartered Accountants of India** forms part of this Annual Report." (emphasis supplied)*
2.	Disclosure in the standalone financial statements – schedule 10 significant	*"The financial Statements have been prepared to comply in all material respects with the generally accepted accounting principles, **Indian***

#	Particulars	Disclosures made
	accounting policies: note 1, *"system of accounting"*	***Accounting Standards notified under Section 133 of the Companies Act, 2013,*** *read with relevant rules issued thereunder and the relevant provisions thereof." (emphasis supplied)*
3.	Note 9 under significant accounting policies refers to Ind AS	*"The preparation of financial statements in conformity with* ***Ind AS*** *requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognized in the period in which the results are known/ materialized." (emphasis supplied)*
4.	The second paragraph of the opinion part of the independent auditor's report	*"In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view* ***in conformity with the accounting principles generally accepted in India****, of the state of affairs of the Company as at March 31, 2020, and of profit, changes in equity and its cash flows for the year ended on that date." (emphasis supplied)*

9. The Company is a listed company on a stock exchange in India, therefore, as per rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, it is required to comply with Ind AS Framework prescribed under the aforesaid rules for the preparation and presentation of its annual financial statements. However, the disclosures made by the Company stated above were allegedly contradictory and misleading.

10. NFRA further observed that in note 2 to the financial statements for the FY 2019-20 (at page 76 of the annual report for the said year), the Company has reported an amount of Rs 7,73,670 as non-current investments, classified as "trade investments" and "other investments". In this case, PSIL has followed the

classification requirements prescribed in Division I of Schedule III of the Companies Act, 2013, which applies to companies that are required to follow Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as "**AS Framework**"), whereas PSIL is required to follow the classification requirements prescribed in Division II of Schedule III to the Companies Act, 2013. It was also observed that PSIL has not made the disclosures required as per Division II of Schedule III to the Companies Act, 2013, in respect of current investments. Similarly, the accounting policy of classification and measurement of investments in equity instruments and mutual funds, as disclosed by the Company, was erroneous and not relevant for companies falling under the Ind AS Framework. Such policies are relevant for companies that follow the AS Framework.

11. Nomenclatures followed by the Company, for presentation of certain items, are not as per the Ind AS Framework. The same is tabulated below:

Financial statement items	**Presentation as made by the Company**	**Remarks**
Statement of Cash Flows	Cash Flow Statement	The title "Cash Flow Statement" is used in AS 3 which is applicable to non-Ind AS Framework companies. The Company was required to make presentation as per Ind AS Framework under Ind AS 7 with title "Statement of Cash Flows".
Cash Flow from Investing Activities	Purchase of Fixed Assets and Proceeds from Sales of Fixed Assets	Contrary to the requirement of paragraph 16(b) of Ind AS 7: Property, Plant and Equipment, the Company has used the heading mentioned alongside which is prevalent in AS Framework.
Cash Flow from Operating Activities	Profit on sale of Fixed assets	The terminology provided alongside is contrary to Ind AS Framework which requires the heading "Property, Plant and Equipment".

12. From the above, it was observed that the Company followed AS Framework for disclosures regarding many of the balance sheet items as opposed to applying the Ind AS Framework. The selection, application and disclosure of Ind AS Framework

prescribed under the Companies Act, 2013 is fundamental to ensure that the financial statements are reflecting a true and fair view of the state of affairs of the company, as required by Section 129 of the Companies Act, 2013.

Incomplete financial statements: Absence of statement of changes in equity

13. NFRA observed that financial statements presented by PSIL does not include statement of changes in equity (hereinafter referred to as "**SOCIE**"). Paragraph 10 of Ind AS 1 mentions components of complete financial statements, in sub-paragraph (a), it requires companies to present SOCIE as part of balance sheet of company. PSIL has not presented a component of the financial statements as required under the Companies Act, 2013 and applicable Ind AS Framework. PSIL continues to follow the presentation and disclosure norms of Division I of Schedule III to the Companies Act, 2013, which does not apply to it.

14. Further, PSIL disclosed details of "share capital" and "reserves and surplus" in note 9 and 10, respectively (page 78 of annual report for FY 2019-20). NFRA observed that the aforesaid cannot be considered as presentation of SOCIE, as it had the following deficiencies:
    (a) Note nos. 9 and 10 do not contain all the information that is required to be presented in the SOCIE, as per paragraph 106 of Ind AS 1 and Division II of Schedule III to the Companies Act, 2013.
    (b) A description of the nature and purpose of each reserve was not disclosed.
    (c) Terminologies/headings used in note nos. 9 and 10 are different from those cross-referenced for the line items presented on the face of the balance sheet.

15. It was observed that PSIL relied upon paragraph 6 of Ind AS 1 to state that the details required have been shown in aforesaid notes 9 and 10 instead of SOCIE. NFRA observed that the correct paragraph is 106 and that aforesaid interpretation

of PSIL cannot be adopted as preparation and presentation of SOCIE is mandatory. It further observed that PSIL has not completely understood the presentation requirements of Ind AS 1 and Division II to the Schedule III to the Companies Act, 2013. The manner, style and contents of information presented in PSIL's annual financial statements for the Investigation Period indicates that it continues to follow the requirements of Division I of Schedule III to the Companies Act, 2013 which does not apply to the companies that are required to prepare and present the financial statements under Ind AS Framework. As the financial statements presented by the Company do not comply with section 2(40) of the Companies Act, 2013, such financial statements are null and void.

16. In view of the above, it was observed by SEBI that Ind AS was applicable to PSIL in the FY 2019-20. However, PSIL has not followed the requirements of Ind AS Framework, while preparing its financial statements, rather it has prepared its financial statements in accordance with AS Framework. The aforesaid act by PSIL allegedly led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The aforesaid provisions are reproduced below for convenience:

LODR Regulations

CHAPTER II PRINCIPLES GOVERNING DISCLOSURES AND OBLIGATIONS OF LISTED ENTITY

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

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

(b) The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the

interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.

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

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

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

CHAPTER IV OBLIGATIONS OF A LISTED ENTITY WHICH HAS LISTED ITS SPECIFIED SECURITIES AND NON-CONVERTIBLE DEBT SECURITIES

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

(c) The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India: Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

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

SCR Act

LISTING OF SECURITIES

Conditions for listing.

***21.** Where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange.*

Management discussion and analysis report

17. The management discussion and analysis report present at page 36 of the annual report of the Company for the Investigation Period *inter alia* states that "*In view of sluggish global demand, the Company repositioned some of its supplies to favourable markets. The Company has passed through a very unusual phase, any worthwhile comparison of performance between two periods would be inconclusive."* NFRA observed that such vague statements do not convey any meaningful information about the Company. For example, there is no mention of how the global factors or the Indian conditions have affected the business of the Company and how the Company is going to drive its business growth.

18. NFRA further observed that a company is not only required to disclose the business structure under the "Management Discussion and Analysis Report" but also various other matters such as performance analysis, operational overview, key financial ratio, futuristic business outlook, *etc*. Further, a company is also required to disclose the opportunities and threats, strengths and weaknesses, risks and concerns relevant to the company as opposed to a general discussion under the said headings. The absence of such matters in the annual report raises serious doubts regarding the genuineness of the business activities of the Company.

19. In this regard, it was observed by SEBI that regulation 34(3) of LODR Regulations provides that annual report of the company shall contain any other disclosures specified in Companies Act, 2013 along with other requirements as specified in Schedule V of LODR Regulations. Further, Part B of Schedule V to LODR Regulations provides a list of matters that shall be included under the head

"Management Discussion and Analysis". Some of the matters to be mentioned include industry structure and developments, opportunities and threats, segment–wise or product-wise performance, outlook, key ratios *etc*. However, PSIL has not discussed any of the aforesaid matters under the head "Management and Discussion Analysis". In view of the above, it was alleged that PSIL has violated regulation 34(3) read with Part B of Schedule V of LODR Regulations and regulation 4(1)(g) of LODR Regulations. Regulation 34(3) of LODR Regulations has been reproduced below for facility:

Annual Report.

34.

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

<u>Segment reporting and irrelevant disclosures in other parts of annual report</u>

20. <u>Segment reporting</u>: NFRA has observed that there are no disclosures in the annual financial statements in respect of the operating and reportable segments of PSIL, except the cryptic statement made in the director's report at page nos. 15 and 16 of the annual report provided below:

    "BUSINESS PERFORMANCE AND SEGMENT REPORTING:

    Your Company continues to trade in steel plates, which is major source of segment in the Company.

    SEGMENT-WISE PERFORMANCE:

    The Company is into single reportable segment only"

21. In this regard, NFRA observed that paragraphs 31 to 34 of Ind AS 108: Operating Segments, mandate certain disclosures called "entity-wide disclosures"; these disclosures are required by all entities including those entities that have a single

reportable segment. According to NFRA, PSIL has been negligent in ensuring compliance with the minimum mandatory disclosure requirements of the Ind AS applicable to PSIL, including of Ind AS 108, in accordance with section 129 of the Companies Act, 2013.

22. Irrelevant disclosures in other parts of annual report: As stated above, the heading titled "Business Performance and Segment Reporting" which forms part of directors' report at page 15 of the annual report states that *"During the financial year ended 31st March 2020, the company has recorded total revenue of Rs 16,07,66,319 and earned net profit of Rs 4,54,696. Your company continues to trade in steel plates, which is major source of segment in the company".* NFRA observed that the aforesaid sentences do not provide any value addition as these numbers are already given in the director's report in the immediately preceding section (*i.e.,* under the heading titled "Financial Results"). It was further observed that a normal investor will be interested in information such as the status of orders with PSIL, the growth or degrowth of key numbers like turnover/PBIT, visibility to the future revenue streams *etc*. However, such information was absent from the annual report.

23. In view of the above, it was observed by SEBI that PSIL has failed to comply with the requirements of Ind AS 108: Operating Segments, regarding certain entity wide disclosures to be made by all entities. Further, it was observed that PSIL has not made disclosures regarding its turnover or growth, under the director's report, which may be material to the users of the financial statements. Thus, the aforesaid acts of PSIL led to alleged violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act.

Notes to the financial statements

24. NFRA observed that PSIL has not complied with disclosure requirements of paragraphs 17 and 18 of Ind AS 10 which are reproduced below:

Paragraph 17 of Ind AS 10: *"An entity shall disclose the date when the financial statements were approved for issue and who gave that approval. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact."*

Paragraph 18 of Ind AS 10: "It is important for users to know when the *financial statements were approved for issue, because the financial statements do not reflect events after this date."*

25. In view of the above, it was observed by SEBI that PSIL has not disclosed the date when the financial statements were approved for issue, thereby violating the provisions of Ind AS 10: Events after the Reporting Date, which allegedly led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1) (c) and regulation 48 of LODR Regulations read with section 21 of SCR Act.

Non-compliance with Ind AS 1 and 8 in presenting Schedule 10: Significant accounting policies

26. Non-compliance of Ind AS 8: NFRA observed that in the Ind AS Framework applicable to PSIL, changes/amendments have taken place which were applicable for the Investigation Period (*i.e.,* FY: 2019-20). In respect of such changes, PSIL was required to make disclosures under paragraph 28 of Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors. However, PSIL has not made any such disclosures.

27. Non-compliance of Ind AS 1 with respect to presenting "notes to accounts" to the financial statements

(i) NFRA observed that PSIL's structure and order presentation of "notes on accounts" and order of presentation of significant accounting policies is not in accordance with the principles and requirements of Ind AS 1 and also the prescriptions in Division II of Schedule III to the Companies Act, 2013.

(ii) As per NFRA, it is incorrect to present various notes on accounts in different places of the annual financial statements. The same is misleading and has the potential to obscure the material information. Hence, the annual financial statements of PSIL were not in compliance with the requirements of section 129 of the Companies Act, 2013.

28. Other non-compliances of Ind AS 1: NFRA has observed that the accounting policies disclosed by PSIL, in Schedule 10: Significant accounting policies and Note 9: Use of estimates, does not disclose the information mandated in paragraphs 122, 125, 126 and 127 of Ind AS 1 (Presentation of Financial Statements). It has further observed the following:

(i) Disclosures relating to judgments made by the management and sources of significant areas of uncertainty are not in compliance with the requirements of Ind AS 1 which is critical in COVID-19 times.

(ii) PSIL's annual financial statements for the FY 2019-20 are not in compliance with the requirements of section 129 of the Companies Act, 2013 as the disclosures are incomplete in respect of certain critical areas about the preparation of financial statements in time of high-level uncertainty caused by COVID 19.

(iii) PSIL's annual financial statements are incomplete in respect of disclosures regarding its capital management as required by Ind AS 1.

(iv) In Note 1 Part B Notes on Accounts on page 66 of the annual report for FY 2019-20, PSIL has made the following disclosure "Sundry Creditors, Sundry Debtors, Loans and Advances have been taken at their book value subject to confirmation and reconciliation.". The purpose and the impact of this disclosure on the recognition and measurement of these financial assets and liabilities in the financial statements is not clear and may mislead investors.

(v) In Note 1 Part B Notes on Accounts, PSIL has made the following disclosure at the bottom of the note on page 67 of the annual report for FY 19-20: "Previous year figures have been regrouped or rearranged whenever necessary". There are no details of the regroupings made to enable the users of the financial statements to understand the impact of the above reclassifications and regroupings. Also, it is not clear whether these reclassifications and regrouping were due to correction of prior period errors as defined in Ind AS 8. If so, it is unclear whether these errors needed any restatement of amount as required by Ind AS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) or the reclassifications due to change in the presentation/classification of items under Ind AS 1 (Presentation of Financial Statements).

29. In view of the above, SEBI observed that by not complying with the disclosure requirements of Ind AS 8 and by not providing the necessary details as required under Ind AS 1, PSIL has caused ambiguity regarding its financial statements which may mislead investors, and therefore, it allegedly violated regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act.

<u>Different terminologies/heading used, incorrect heading used and inconsistency in cross-referencing</u>

30. Paragraph 113 of Ind AS 1 requires a company to follow certain norms with respect to presenting notes and cross-referencing. NFRA observed that on the face of the statement of profit and loss, PSIL has reported an amount of Rs 5,42,556 under the heading "depreciation and amortisation expenses" (on page 70 of the annual

report for FY 2019-20) and the same is cross referenced to note 1 where the description used is “depreciation charge for the year” (on page 74 of the said annual report).

31. Further, in the statement of cash flows (incorrectly titled as cash flow statement by PSIL), the title of the related item is “depreciation”. Similarly, on the face of the statement of profit and loss, PSIL has mentioned “total revenue” of Rs.16,75,11,428 (page 15 of the annual report for FY 2019-20), however, Part II of Division II of Schedule III requires the use of the description “total income”. PSIL has not been consistent and systematic in using the titles of line items in different parts of the financial statements which are cross referenced to each other.

32. Note nos. 15 to 21 (page 81 and 82 of annual report for FY 19-20) relate to line items presented on the face of the statement of profit and loss. The heading of these notes should be described as “year ended March 31, 2020” and “year ended March 31, 2019”. However, PSIL has mentioned it as “As at March 31, 2020” and “As at March 31, 2019”.

33. PSIL has not disclosed the bifurcation of the trade payables on the face of the balance sheet as required by the requirements of Schedule III to the Companies Act, 2013.

34. PSIL has not complied with critical disclosures required by Schedule III to Companies Act, 2013 in respect of amounts payable to Micro and Small Enterprises. Accordingly, the annual financial statements of PSIL for the Investigation Period were allegedly not in compliance with the requirements of Section 129 of the Companies Act, 2013.

35. Taking the aforesaid into account, SEBI observed that PSIL has not used terminologies and has not presented line items in its financial statements in accordance with the prescribed accounting standards. Therefore, it was alleged that PSIL has violated regulation 4(1) (a), (c), (b), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act.

Presentation of financial statements: Rounding off

36. NFRA observed that PSIL has presented full figures in the financial statements without rounding off to the nearest hundred or lakhs. In respect of notes nos. 2 to 21 relating to line items reported in the balance sheet and statement of profit and loss, figures have been presented up to two decimals. It further observed that the Company's turnover (revenue from operations) is Rs. 16.08 crores and according to the requirements of Division II of Schedule III to the Companies Act, 2013 (General instructions for preparation of financial statements of a company required to comply with Ind AS), the Company was required to round off the figures presented in the financial statements to the nearest hundred.

37. In view of the above, SEBI observed that the Company has not reported the figures in the financial statements to the nearest hundred or lakhs, as required under the Companies Act, 2013 which is not in accordance with the relevant statutory provisions. This allegedly led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

B. Disclosure and misrepresentation of financials/information violations

Incomplete annual report published on the Company's website

38. NFRA observed that there are differences in the annual report for FY 2019-20 available on the website of the Company and the annual report provided by the

Company to NFRA. The annual report published on the Company's website is incomplete in material aspects as explained in the table below:

#	Particulars	Annual report available on the website of the Company	Annual report provided by the Company to NFRA
1.	Year of incorporation	1970	1973 (whereas the date of incorporation stated on MCA master data is May 29, 1972)
2.	Nature of business stated on the page "About PSIL"	It has been stated that manufacturing operations were commenced during the year 1970-71. It has no mention of the present activities of the business.	It has been stated that they are at present trader and supplier of HR sheet and plate, MS beam and many more.
3.	Total no. of pages	92 pages	93 pages
4.	Property plant and equipment (PPE)	Note 1 on PPE is not available.	Note 1 is available.

39. Further, NFRA observed that item "Property, Plant and Equipment" appearing in the balance sheet of the Company bears a cross-reference to Note-1. However, the annual financial statements published on the Company's website does not contain any such note. Due to absence of information regarding a significant area of financial statements *i.e.,* Note 1: Schedule of Property, Plant and Equipment, Company has violated Ind AS 16 Property, Plant and Equipment and Schedule III of Companies Act.

40. NFRA observed that the Company has given false information in the annual report published on its website, knowing it to be false and its actions fall under section 448 of the Companies Act, 2013, liable for consequences under section 447.

41. SEBI observed that the annual financial statements published on the Company's website do not comply with the requirements of Ind AS 16 and Schedule III to Companies Act, 2013 which allegedly led to violation of regulations 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Classification and accounting for investment in shares of a company named Hariyana Metals Ltd.</u>

42. NFRA observed that Part III (Particulars of holding, subsidiary and associate companies) in form MGT–9 of PSIL states that Hariyana Metals Ltd. is an associate company whereas item IV (i) "shareholding of promoters" of form MGT-9 states that Hariyana Metals Ltd. is holding only 8.46% shares of PSIL. In this regard, Companies Act, 2013 defines an "associate company" as a company in which the other company has
"significant influence", which in turn has been defined as *"control of at least twenty per cent of total voting power, or control of or participation in business decisions under an agreement."*

43. In its response to NFRA, the Company submitted that since the management of both the companies is common, it shall be considered as an associate company due to significant influence.

44. However, NFRA observed that PSIL does not hold twenty percent of total voting power and that no evidence has also been provided with respect to control or agreement of participation by PSIL in business decisions of Hariyana Metals Ltd. Further, it observed that contradictory disclosures have been made in form MGT-9, as item III states that PSIL is holding 8.46% shares in Hariyana Metals Ltd. whereas item IV (i) of form MGT-9 states that Hariyana Metals is holding 8.46% in PSIL. Additionally, it observed that no consolidated financial statements have been

prepared by PSIL showing Hariyana Metals Ltd as an associate company. NFRA also observed that in schedule 10 significant accounting policies, part B notes on accounts, in point 6, the Company has disclosed Hariyana Metals Ltd. as an associate company, however, the carrying amount of such investment has not been disclosed as a separate line item in balance sheet as required under paragraph 54 of Ind AS 1.

45. From the above, NFRA concluded that financial statements of PSIL do not comply with the requirements of Companies Act, 2013 and are null and void.

46. On perusal of the financials of PSIL on BSE website, SEBI observed that Hariyana Metals Ltd. is holding 8.46% in PSIL. Hence, PSIL claiming that Hariyana Metals Ltd. is an associate company is not correct. Further, from the findings of NFRA, it observed that PSIL has provided untrue financial statements and made contradictory disclosures in form MGT-9 which allegedly led to violation of regulations 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

Note 11- Taxes on income in Schedule 10: Significant accounting policies

47. PSIL has reported an amount of Rs 3,24,661 under the line item "deferred tax liabilities" in the balance sheet (on page 68 of its annual report for FY 2019-20). In this regard, NFRA has observed that:
   a. the accounting policy in respect of accounting for deferred tax is erroneous and not in accordance with Ind AS 12: Income Taxes.
   b. no current tax assets have been recognized in the balance sheet for the year ended March 31, 2020. Depreciation of Rs. 8,869 has been disclosed as the only major component of deferred tax liability.

c. the Company has not disclosed the type of temporary difference or type of unused tax losses or unused tax credits for which it has recognized the net deferred tax liabilities of Rs. 3,24,661 in the financial statements of 2019-20.

48. PSIL's accounting policy for recognizing and measuring the deferred tax expenses or benefits is incorrect and inconsistent with the accounting required under AS 12. As per Ind AS 12, deferred tax expenses or benefits are computed based on the "balance sheet" approach wherein these items are determined based on recognition of deferred tax assets and deferred tax liabilities, which in turn is based on the concept of "temporary differences". However, PSIL has followed the "income statement" and "timing differences", under AS 22, under AS Framework, which is no longer applicable to PSIL. Hence, the current tax is not properly disclosed in the financial statements of PSIL. Thus, PSIL has not complied with the disclosure requirements of Ind AS 12 relating to the nature of the carrying amount of deferred tax assets or liabilities recognized in the balance sheet. This has resulted in the financial statements not disclosing a true and fair view as required by section 129 of the Companies Act, 2013.

49. From the above, SEBI observed that the Company has failed to recognize its deferred tax liabilities, as per the requirement of Ind AS:12. The said lapse has resulted in PSIL not preparing and disclosing its financial statements in accordance with applicable standards of accounting thereby leading to misrepresentation. This allegedly led to violation of regulations 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Deficiencies/failures in impairment loss recognition and measurement in Note 5: Trade receivables, Part b of Note 8: Current loans and advances and Note 7: Bank balances</u>

Note 5: Trade Receivables:

50. NFRA observed that Company has reported an amount of Rs. 2,20,90,515 as outstanding trade receivables for FY 2019-20 (page 68 of annual report for FY 2019-20). Out of the said amount, Rs 33,73,555 is reported as outstanding for more than six months. Provision for doubtful debts *i.e.,* provision for impairment loss is reported as nil. The total outstanding amount of "trade receivables" is 13.79% of the total assets for FY 2019-20. Further, the Company has not disclosed its accounting policy for recognition and measurement of impairment loss for trade receivables. There is no impairment loss allowance recognized in respect of the above financial assets as required under Ind AS 109: Financial Instruments.

51. It was further observed that as per the requirement of Ind AS 109, the Company was required to consider all the factors in the recognition and measurement of impairment loss allowance, which is based on expected credit loss approach. The full amount of trade receivables of the Company is unsecured thus it becomes even more necessary to assess the credit risk holistically as required by the prescriptions of Ind AS 109. The assumption of PSIL that there is no uncertainty expected in the recovery of trade receivables, hence no loss allowance, is erroneous and not in the 'letter and spirit' of the principle prescribed under Ind AS 109. It concluded that Company has failed to properly and adequately assess the impairment loss allowances for FY 2019-20 holistically by taking into account various relevant factors as per Ind AS 109.

Part b of Note 8: Current loans and advances:

52. NFRA observed that Company has reported an amount of Rs. 6,36,29,593 under current loans and advances – others (on page 68 of the annual report for FY 2019-20) in the category of financial assets. These balances account for 39.73% of the total assets. These have been classified as unsecured considered good but provision for doubtful debts *i.e.,* provision for impairment loss is reported as nil.

Further, the Company has not disclosed its accounting policy for recognition and measurement of impairment loss on these financial assets as per Ind AS 109: Financial Instruments.

53. Details of nature of these loans and advances have also not been disclosed in the notes to accounts. In the absence of disclosure of accounting policy on classification of these loans and advances, these financial assets shall be considered as subject to classification and measurement requirements of Ind AS 109.

54. PSIL responded that paragraph 11 of Ind AS 32 provides for recognition of expected credit losses, on loans and advances, which are financial assets. However, the Company's business model is not to hold loans and advances for contractual cash flows, as envisaged in the said Ind AS. NFRA observed that PSIL's response, regarding the classification and measurement of its loans and advances, in the nature of financial assets, is misleading. The response of PSIL is not justifiable given the provisions regarding the impairment loss allowance recognition. Considering the unsecured nature of the loans and advances, it is even more necessary to assess the credit risk holistically. NFRA observed that the aforesaid fact, coupled with the absence of disclosures of accounting policy and various other aspects relating to financial instruments, indicates the complete lack of understanding of the accounting requirements of Ind AS relating to financial instruments *i.e.,* Ind AS 109, Ind AS 32 (Financial Instruments: Presentation) and Ind AS 113 (Fair Value Measurement).

<u>Note 8: Bank balances</u>

55. NFRA observed that Company has reported an amount of Rs 2,47,16,741 under "bank balances" in the category of financial assets (on page 77 of annual report for FY 2019-20). A substantial part (96.64%) of these balances are held with non-

scheduled and lesser known banks. Impairment loss allowance has not been made against these financial assets. Company has also not disclosed its accounting policy for recognition and measurement of impairment loss on these financial assets, as per Ind AS 109: Financial Instruments. Banks and financial institutions also possess the risk of default on their payment/credit obligations. Hence, there is a need to assess the credit risk on the receivables from these institutions, as required by Ind AS 109. However, the Company has failed to comply with the same.

56. The absence of disclosure of accounting policy and various other aspects relating to financial instruments in PSIL's financial statements, indicates the complete lack of understanding of the accounting requirements Ind AS 109, Ind AS 32 (Financial Instruments: Presentation) Ind AS 107 (Financial Instruments: Disclosures) and Ind AS 113 (Fair Value Measurement).

57. SEBI observed that PSIL has not recognized any impairment loss, in respect of its trade receivables, despite the latter being unsecured, as required under Ind AS 109. It has also not recognized any impairment provision with respect to its current loans and advances, as required under Ind AS 109. Further, it has not assessed the credit risk of balances held with banks (including of non-scheduled and lesser known banks), as required under Ind AS 109, thus resulting in misstatement of financial statements to the extent of impairment loss provision. In view of the above, it was alleged that PSIL has failed to prepare its financial statements, in accordance with applicable accounting standards and has not disclosed a true and fair view of its financial statements leading to violation of regulations 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

Note 3: Inventories and disclosure relating to inventories

58. NFRA observed that the Company has disclosed the following types of assets as inventories in its balance sheet at page 76 of the annual report for FY 2019-20: (a) land: Rs.1,29,75,000; and (b) shares: Rs 10,61,396. It observed that the type of items classified and measured as inventories are not in compliance with the principles of Ind AS 2: Inventories. PSIL responded to the above by stating that it had purchased land and equity shares with an intention to resale, hence they have been shown under stock in trade. However, NFRA observed that Company has not provided any supporting documents regarding the aforesaid assertion and that its stated objectives as disclosed in the annual report/financial statements is contradictory to the aforesaid submission.

59. NFRA observed that PSIL has reported an amount of Rs 11,215 relating to sale of shares as revenue from operations (at page 81 of its annual report for FY 2019-20). The Company has considered the investment in shares as inventories under Ind AS 2: Inventories and recognized the sale amount of these shares as revenue from operations. However, as per Ind AS 32 (Financial Instruments: Presentation) investment in shares is a financial asset, which are subject to the accounting prescriptions of Ind AS 109: Financial Instruments. Therefore, recognition of sale of shares as revenue from operations by PSIL is incorrect.

60. NFRA observed that the disclosures made by the Company in (a) Point 6 (Inventories) of Schedule 10: Significant accounting policies; and (b) Note 3 (details of the carrying amounts of inventories presented in the balance sheet), are inadequate and incomplete *vis-à-vis* the requirements of Ind AS 2: Inventories. Particularly, the disclosures of accounting policy do not mention critical information about the cost formula used in measuring the inventories. It further observed that the response given by the Company is unjustifiable.

61. SEBI observed that the classification and measurement of land and shares as inventories, in the books of the Company, is not in accordance with Ind AS 2. Further, it has observed recognition of the sale of shares as "revenue from operations" by PSIL is incorrect. Therefore, it has observed that PSIL has not presented a true and fair view of its financial statements by not preparing the same in accordance with the applicable accounting policies which has resulted in misrepresentation of financial statements. Taking the aforesaid into account, it was alleged that PSIL has violated regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Note 4: Depreciation on property, plant and equipment in Schedule 10: Significant accounting policies</u>

62. NFRA observed that Company in Note 4, has *inter alia*, stated the accounting policy reproduced below (at page 65 of annual report for FY 2019-20).

From 1st April, 2014:

Depreciation on all Assets is provided as per the useful life of the assets as prescribed in Schedule II to the Companies Act, 2013. There had been a revision in the estimated useful life of assets as per the Companies Act, 2013 and the unamortized depreciable amount is being charged over the revised remaining useful life since 2014. Depreciation on assets except Building and Shed and Plant and Machinery is provided on "Written down value method." <u>Since no manufacturing activity has been carried out during the year depreciation on such plant and machinery used in manufacturing process has not been provided</u>." (emphasis supplied)

63. Further, in clause II of the Company's extract of annual return (Form MGT-9) on page 26 of the annual report for the FY 2019-20, the principal business activity of

the Company is stated as ‘Commercial Steel Trading – Wholesale’ contributing to 100% of the turnover of the Company.

64. It was observed that the non-provision of depreciation on plant and machinery simply due to reason of not carrying any manufacturing activity, during the year, is contrary to the provisions of Ind AS 16: Property, Plant and Equipment. It is nowhere disclosed in the annual report that depreciation is provided on plant and machinery as per usage method. Instead, the disclosure note states *“Depreciation on all Assets is provided as per the useful life of the assets.”* Further, the Company has not considered the prescriptions of paragraph 56 of Ind AS 16, which states that other factors such as technical and commercial obsolescence and wear and tear while an asset remains idle results in diminution of the economic benefits from the asset.

65. NFRA also observed that Company has applied depreciation rates as per schedule XIV of the old Companies Act, 1956 to some of the assets and useful life as per Schedule II of the Companies Act, 2013 to some other assets which is not in accordance with the statutory provisions and hence the financial statements do not comply with the requirements of the Companies Act, 2013.

66. As to impairment loss recognition and measurement, the management of the Company has assessed that there is no impairment of plant and machinery as the Company is no longer carrying on any manufacturing activity and its wholesale trading has become its sole business activity. NFRA observed that the aforesaid is a clear indication that plants and machinery of the Company have become idle and significant changes with adverse effects in the technological, market and economic environment have taken place. Therefore, the Company should have disclosed adequate and suitable information as to how it has assessed the recoverable amount (*i.e.,* the estimation techniques and approaches). The specific

requirements in respect of measurement of value are prescribed in Ind AS 36: Impairment of Assets.

67. NFRA concluded that financial statements of PSIL, for the FY 2019-20, in the absence of recognition of impairment loss on non-financial assets, do not reflect a true and fair view of state of affairs of the company, as required by section 129 of the Companies Act, 2013.

68. In light of the above, SEBI observed that the Company has not created provision for depreciation on plant and machinery and has also not considered the requirements of Ind AS 16. Further, the Company has applied depreciation rates as per Schedule XIV to the Companies Act, 1956 to some of the assets and calculated useful life as per Schedule II to the Companies Act, 2013 to some other assets. Therefore, the Company has not maintained any consistency in application of accounting policies. Additionally, the Company has not recognized any impairment loss on plant and machinery. In summary, by not following the prescriptions of Ind AS 16 and Ind AS 36, the Company has failed to prepare its accounts in accordance with prescribed accounting policy, thereby leading to misrepresentation of financial statements. This allegedly led to violation of provisions of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(a), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The aforesaid provisions have been reproduced in paragraphs above, except regulation 33(1)(a) of LODR Regulations, which is provided below:

Financial results.

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

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

<u>Note 3: Property, plant and equipment in Schedule 10: Significant accounting policies</u>

69. NFRA observed that the Company in the abovementioned note, has, *inter alia*, stated the following accounting policy (at page 64 of the annual report for the FY 2019-20):

"Property Plant and Equipment are stated at historical cost, except part of leasehold land, building, shed and Plant & Machinery revalued stated at Cost less accumulated depreciation and impairment losses if any. Cost comprises of the purchase price (net of tax/ duty credit availed) and any cost direct/ incidental and borrowing cost attributable bringing the asset to its working condition for its intended use".

70. NFRA observed that PSIL has not made disclosures required by paragraph 77 of Ind AS 16 (Property, Plant and Equipment), in respect of certain items of property, plant and equipment *viz.* part of leasehold land, building, shed and plant & machinery, which are stated as revalued amounts. The annual financial statements of PSIL, for the FY 2019-20, therefore, do not reflect a true and fair view of the state of affairs of the Company as required by section 129 of the Companies Act, 2013.

71. In view of the above, SEBI observed that the Company has not complied with the disclosure requirements of Ind AS 16 (Property, Plant and Equipment), including paragraph 77 of the said Ind AS 16, in respect of certain items of plant and equipment, which have been stated at revalued amounts. Thus, the Company has not implemented the accounting standards in letter and spirit in preparation of financial statement, thereby leading to its misrepresentation which allegedly led to

violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Employee benefit expenses in statement of profit and loss</u>

72. NFRA observed that the statement of profit and loss of the Company for the FY 2019-20 shows employee benefit expenses amounting to Rs 22,93,816 (at page 70 of the annual report for FY 2019-20). Further, clause (vii) of Annexure A of Companies (Auditor's Report), Order, 2020 (hereinafter referred to as "**CARO 2020 Report**") in the independent auditor's report at page 59 of the annual report for FY 2019-20 states that the Company was *"generally regular in depositing dues in respect of Employees Provident Fund, Employees State Insurance Fund, and other statutory dues."*

73. PSIL's financial statements does not contain any disclosure as required under Ind AS 19: Employee Benefits, regarding recognition and measurement of post-employment benefits such as defined contribution plans, defined plans or other long-term benefits. PSIL has also not disclosed its accounting policy in respect of this significant expense item.

74. NFRA further observed that the Company's reply that it has not incurred any expenditure for defined benefit/defined contribution plans for employees because manpower supply is outsourced from third party service providers is not supported by any evidence. Further, it has not explained the reasons for not incurring any expenses towards any post-employment benefits, in the form of either defined benefit plans or defined contribution plans for the employees, although it has reported an amount of Rs 10,93,816 under the line items salaries, wages/allowances in the statement of profit and loss (at page 82 of the annual report for FY 2019-20). It was also observed that the aforesaid reply of the

Company is contradictory to what is stated in its independent auditor in clause (vii) of the CARO 2020 Report, where it is stated that the employee provident funds (presumably, a defined contribution plan) dues are deposited regularly. Thus, it concluded that the response of the Company is unacceptable.

75. Regarding the paragraphs above, SEBI observed that the Company has not made any disclosures under Ind AS 19 (Employee Benefits) regarding recognition of post-employment benefits, although it has incurred expenses towards salary and wages. Further, the disclosures made by the statutory auditor of the company in CARO 2020 Report is contradictory to the factual position of the Company, as the Company has not incurred any expenditure for defined benefit/defined contribution plans for employees. Therefore, the Company has failed to give a true and fair view of its financial statements by not complying with the requirements of Ind AS 19 which allegedly led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Schedule III Disclosure requirements in Part b of Note 8: Current loans and advances- others</u>

76. NFRA observed that the Company has reported an amount of Rs 6,36,29,593 at page 77 of the annual report for FY 2019-20 under Part b of Note 8: Current loans and advances-others in the category of financial assets. These balances account for 39.73% of the total assets. Division II of Schedule III to the Companies Act, 2013 requires the disclosure of the specific nature of amounts reported under sub-line items 'others' *i.e,* details of the nature of these loans and advances. Further, according to section 129 of the Companies Act, 2013, the financial statements shall be in the form prescribed under Schedule III of the Companies Act, 2013. PSIL's annual financial statements do not comply with requirements of Division II of Schedule III to the Companies Act, 2013, as there is no disclosure of the nature of

items, relating to ‘financial assets-current loans and advances’, in the notes to accounts.

77. In response to the above, PSIL *inter alia* stated that the amount of Rs 6,36,29,593 *inter alia* relates to deposit of taxes and duties with government departments. In this regard, NFRA observed that some of the sub-items, for example, the deposit of taxes and duties with the government departments *etc.,* included by the Company under the line items ‘current loans and advances-others’ are not financial instruments and financial assets as defined under Ind AS 32 (Financial Instruments: Presentation). Therefore, it concluded that there are fundamental errors in the classifications and presentation of line items in the balance sheet and the disclosures made are therefore not in conformity with Ind AS Framework.

78. Taking into account the aforesaid, SEBI observed that the Company has not made the disclosures as required under Ind AS 32, with respect to disclosure of the nature of items under the head “financial assets-current loans and advances”. Further, by disclosing items such as deposit of taxes and duties with government under the head “financial assets-current loans and advances”, the Company has misrepresented its financial statements, thereby allegedly leading to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Note 11: Non-current borrowing</u>

79. NFRA has observed that the Company has disclosed secured borrowing amounting of Rs 2,65,12,583 and unsecured borrowing amounting of Rs 2,20,00,000 (at page 79 of the annual report for FY 2019-20). However, information specified in Division II to Schedule III of the Companies Act, 2013 has not been disclosed in the financial statements. Thus, the financial statements of the

Company do not comply with the disclosure requirements prescribed under section 129 of the Companies Act, 2013.

80. In response to the above, PSIL stated that it has no borrowings from banks or from related party, hence disclosure for the same has not been made. Further, PSIL has also stated that it has not defaulted in repayment of principal amount of borrowings or interest as at the date of balance sheet. In this regard, NFRA observed that Company did not disclose critical information about its borrowing such as nature/type of the borrowing, terms of repayment, the status of repayments *etc*. It further observed that the Company's response that it has no borrowing from banks is false and misleading as the Company has disclosed an amount of Rs 1,59,96,169.82 as secured loans repayable on demand from banks, in note 12, current borrowings.

81. NFRA stated that the Company had to classify the loans taken as per the categorization mentioned in Division II of Schedule III to the Companies Act, 2013. Further, for secured loans, the nature of security should have been disclosed. However, the Company did not make any such disclosures.

82. In light of the above, SEBI observed that PSIL has not made disclosures such as nature and type of borrowing, terms of repayment of loans, nature of security for secured loans *etc*, thus, it has not provided a true and fair view of its financial statements, thereby leading to its misrepresentation. The aforesaid act of the Company as allegedly led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

Statement of cash flows (incorrectly titled by PSIL as cash flow statement): Cash and cash equivalents

83. NFRA observed that there are differences in the amount of cash and cash equivalents, as presented in the statement of cash flows and the balance sheet, as under:

(Rs in crores)

	Statement of cash flows	**Balance sheet**
Opening balance (as of March 31, 2019)	Rs. 1,95,20,350	Rs. 13,13,327
Closing balance (as of March 31, 2020)	Rs. 2,61,41,721	Rs. 14,24,979

84. From the above, NFRA observed that PSIL has not provided the reconciliation of cash and cash equivalents considered for the statement of cash flows with those used for presentation in the balance sheet. Further, PSIL's annual financial statements do not have the disclosures required under paragraph 46 and 48 of Ind AS 7: Statement of Cash Flows. Therefore, PSIL has not complied with the important disclosure requirements of Ind AS 7.

85. It was further observed by NFRA that the Company has reported the following line items within the component titled "cash flows from operating activities" at page 72 of annual report for FY 2019-20: (a) cash flow before extraordinary items; (b) settlements, if any. In this regard, NFRA noted that usage of line items "cash flow before extraordinary items" is permitted under AS 3: Cash Flow Statements which is not the accounting standard applicable to PSIL. The presentation concept of extraordinary items is not recognized in Ind AS Framework applicable to PSIL. Paragraph 87 of Ind AS 1 specifically prohibits the presentation of any items of income or expense as extraordinary items, in the statement of profit and loss or the

notes. It was further noted that the purpose and disclosure of the line item under the title “settlements, if any”, is unclear and misleading.

86. NFRA stated that PSIL has used the terminologies and concepts prevalent under the AS Framework previously applicable to PSIL. Continuation of these old terminologies and presentation practices is misleading which leads to non-compliance with the Ind AS Framework applicable to PSIL, as per the provision of the Companies Act, 2013.

87. Taking the aforesaid into consideration, SEBI observed that PSIL has provided contradictory figures for the item “cash and cash equivalents” in the statement of cash flows and balance sheet. Further, the Company has prepared its cash flow statement, as per AS 3, under the AS Framework, which is no longer applicable to the Company. Thus, the Company has not prepared and presented its cash flow statement, as required under Ind AS 7: Statement of Cash Flows. In summary, it was alleged that the Company has not prepared and disclosed the information in accordance with applicable standards of accounting and financial disclosure which has led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Note 5: Investments in Schedule 10: Significant accounting policies</u>

88. NFRA observed that Note 5 of Significant Accounting Policies at page 65 of annual report of FY 19-20 states that *“Noncurrent Investments are of long-term in nature and stated at cost or fair value as on 31.03.2020. Since the fair value of investment on the said date was higher, they have been stated at cost.”* It further observed that the non-current investment comprises of investment in equity instruments which amounts to Rs 7,73,670.75 and current investment comprising of investment in mutual funds amounts to nil. The said accounting policy of classification and

measurement of investments in equity instruments and mutual funds is erroneous and not relevant for companies falling under the Ind AS Framework, rather, investments in equity instruments and mutual funds are recognized and measured in separate financial statements of the investor by applying Ind AS 28: Investments in Associates and Joint Ventures, Ind AS 27: Separate Financial Statements; and/ or Ind AS 109: Financial Instruments depending upon the type/category of those investments.

89. In view of the above, NFRA concluded that PSIL's annual financial statements for the FY 2019-20 are not in compliance with the accounting standards required to be followed by PSIL in terms of section 129 of the Companies Act, 2013.

90. SEBI observed that by not following requirements of Ind AS, for classification and measurement of investments in equity instruments and mutual funds, the Company has not prepared and presented its financial statements, in accordance with the accounting standards applicable to it, thereby leading to misrepresentation. This aforesaid act of the Company allegedly led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Non-compliance of Ind AS 107 and Ind AS 113 in Schedule 10: Significant accounting policies</u>

91. NFRA observed that PSIL has reported material amount of assets and liabilities within the line items financial assets and financial liabilities in the balance sheet. Carrying amount of financial assets constitutes 57.48% of the total assets and carrying amount of financial liabilities constitutes 98.50%. It further observed that the financial assets and financial liabilities are subject to specific recognition and measurement requirements of Ind AS 109: Financial Instruments, Ind AS 107 Financial Instruments: Disclosure and Ind AS 113 Fair Value Measurement,

however, PSIL's disclosure of significant accounting policies are completely deficient in respect of the aforesaid Ind AS 107 and Ind AS 113 as regards to material category of financial assets and liabilities, which could have a significant impact on the amounts reported in the financial statements.

92. NFRA concluded that the disclosure in the PSIL's annual financial statements for the FY 2019-20 are incomplete in respect of financial instruments and therefore, PSIL's annual financial statements are not in compliance with the accounting standards required to be followed by PSIL in terms of section 129 of the Companies Act, 2013. Additionally, in view of the total absence of disclosures regarding financial instruments as required by Ind AS 107 and Ind AS 113, users of the financial statements will not be able to evaluate the significance of the financial instruments to the financial position and financial performance of PSIL and the nature and extent of risks to which the PSIL is exposed.

93. SEBI observed that the Company has not made disclosures as required under Ind AS 107 and Ind AS 113, in respect of the material category of financial assets and financial liabilities, that may be useful to the investors when evaluating the financial position and performance of the Company, which in turn may lead to misrepresentation of its financial statements. The aforesaid act of the Company allegedly led to violation of regulation 4(1)(a),(b),(c), (g) , (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

<u>Note 2: Revenue recognition in Schedule 10: Significant accounting policies</u>

94. NFRA has observed that PSIL has disclosed its significant accounting policy on "Revenue from Operations" by way of cryptic sentence reproduced below (at page 64 of the annual report for FY 2019-20):

“Expenses and Income considered payable and receivable respectively are accounted for on accrual.”

95. As per the aforesaid annual report, PSIL is engaged in the business of wholesale trading of steel and has reported revenue from the sale of iron and steel of Rs 16,07,55,103.69 (page 81 of annual report). This amount constitutes almost 100% of total revenue from operations. NFRA has further observed that revenue from operations of PSIL is subject to recognition measurement, presentation and disclosure requirements of Ind AS 115: Revenue from contracts with customers.

96. NFRA concluded that PSIL’s significant accounting policy disclosed is completely misleading, irrelevant and absent in respect of key elements of its financial instruments *i.e.,* ‘Revenue from Operations’ recognized in the statement of profit and loss. In view of the total absence of accounting policy of disclosure relating to revenue from operations, PSIL’s annual financial statements for FY 2019-20 are not in compliance with the Ind AS’s that are required to be followed by PSIL in terms of section 129 of the Companies Act, 2013.

97. In view of the above, SEBI observed that PSIL has made misleading disclosures regarding one of the key elements of financial statements *viz.* “Revenue from Operations” and has also not made any disclosures as required under Ind AS 115. Therefore, the company has not presented its financial statements in accordance with applicable standards of accounting, thereby leading to misrepresentation which allegedly led to violation of regulation 4(1)(a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

Note 7: Provisions in Schedule 10: Significant accounting policies

98. NFRA observed that PSIL has disclosed the following accounting policy for provisions, which is incorrect and outdated (at page 65 of its annual report for FY 2019-20):

99. "A provision is recognized when an enterprise has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation in respect of which reliable estimates can be made.

100. Provisions are not discounted to its present value and are determined based on best management estimates required to settle the obligations at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best management estimates."

101. From the above, NFRA concluded that PSIL's accounting policy for measuring the provisions on an undiscounted basis is incorrect and contrary to the requirement of Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets. It further stated that the accounting policy stated by PSIL is prescribed under AS 29, a standard under AS Framework, which as stated before, is no longer applicable to PSIL. Continuation of erstwhile AS Framework indicates a complete lack of knowledge of the applicable accounting standards framework *viz.* Ind AS Framework that is required to be followed by PSIL in terms of section 129 of the Companies Act, 2013.

102. In light of the above, SEBI observed that Company's accounting policy for measuring the provisions on an undiscounted basis, is not as per the requirement of Ind AS 37 (Provisions, Contingent Liabilities and Contingent Assets), which is applicable to it. Thus, the Company has not followed the correct accounting

standards, in preparation and presentation of its financial statements which allegedly led to violation of regulation 4(1) (a), (b), (c), (g), (h), 33(1)(c) and regulation 48 of LODR Regulations read with section 21 of SCR Act. The said provisions have been reproduced in paragraphs above.

Impact of the misrepresentations mentioned above on the financial statements of the Company

103. An illustrative list of the impact of the actions of the Company explained in detail in paragraphs above has been tabulated below:

#	**Item**	**Impact**
1.	Omission and incorrect disclosures and presentation in the financial statements.	Misrepresentation of financial statements giving untrue picture to the investors.
2.	Failure to assess impairment loss provisions in respect of current loans, advances and bank balances.	Overstatement of net profit.
3.	Recognition of sale of shares as revenue from operations.	Overstatement of revenue and net profit.
4.	Non-provision for depreciation on property, plant and equipment.	Overstatement of net profit.

Role of Noticee 1:

104. There is an obligation cast on a company to present true and fair view of the financial statements in each and every respect and prepare and disclose financial statements in accordance with applicable standards of accounting and financial disclosures. A company should refrain from misrepresentation and ensure that the annual reports presented do not present a misleading picture. The observations, as mentioned above, indicate that PSIL has failed to present a true and fair view of its financial statements, by not following the prescribed accounting standards and policies.

105. Form the observations made in the preceding paragraphs, it was alleged that PSIL has violated regulations 4(1) (a), (b), (c), (g), (h), 33(1) (a), 33(1)(c), 34(3) read with Part B of Schedule V of LODR Regulations and regulation 48 of LODR Regulations read with section 21 of SCR Act.

<u>Role of Noticee nos. 2 and 3</u>

106. In the annual report of the Company for FY 19-20, Noticee 2 has been disclosed as the whole time director and Noticee 3 has been disclosed as the chairman and managing director of the Company during the Investigation Period. In terms of section 2(51) of the Companies Act, 2013, they were also 'key managerial personnel' of the Company, by virtue of their designation.

107. Further, it is observed from the said annual report that:

   a. Noticee nos. 2 and 3 attended all the board meetings of the Company during the FY 2019-20 (page 41 of the annual report).
   b. Noticee nos. 2 and 3 had inter alia signed form MGT-9 (extract of annual return), management discussion and analysis report, annexure III, corporate governance report, annexure A referred in the auditor's report, annexure B of auditor's report, schedule 10: significant accounting policies, balance sheet, profit and loss statement, cash flow statement of the Company (page nos. 34, 38, 51, 61, 63, 67, 69, 71, 73 of the annual report).
   c. As on March 31, 2020, Noticee nos. 2 and 3 held 45,350 shares and 44,050 respectively of the Company (page 41 of the annual report).
   d. Noticee 2 was a member of the stakeholders relationship committee and had attended its meeting (page 43 of annual report).
   e. Noticee 3 was a member of the audit committee and had attended all the meetings of the said committee (page 42 of the annual report).

f. Notice 3 has provided the CEO/CFO certification for the FY 2019-20, under regulation 33(2)(a) of LODR Regulations, which inter alia states that financial results do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading (page 39 of annual report).

108. SEBI had issued summons dated June 30, 2022 to Noticee nos. 2 and 3 for their personal appearance before the investigation authority on July 05, 2022. However, as request was received for adjournment of the statement recording, the same was held on July 07, 2022. On the said date, only Noticee 3 appeared. During the statement recoding, Noticee 3 accepted that there were non-compliances and the financial statements were not prepared as per the Ind AS Framework. However, he stated that the said financial statements were prepared by the auditor of the Company, who has also been fined and debarred by NFRA. Further, he submitted that the Company has provided its reply to NFRA and has complied with all observations of NFRA.

109. SEBI issued summons dated July 07, 2022 to Noticee nos. 2 and 4, for personal appearance on July 18, 2022. Noticee 2 appeared on the scheduled date. During the statement recording, Noticee 2 stated that as he was not aware about the change in the format of the financial statements, he had signed the financial statements prepared by the auditor. He further stated that the financial statements have been reinstated and filed with NFRA and that the Company has decided to start the process of delisting.

110. In view of the paragraphs above, it was alleged that:

a. Noticee 2 being the whole time director of the Company during the FY 2019-20 has failed to present true and fair view of the relevant financial statements in violation of regulations 4(1) (a), (b), (c), (g), (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a), 33(1)(c), 34(3) read with Part B of Schedule V of LODR Regulations, regulation 48 of LODR Regulations read with section 21 and 24 of SCR Act and section 27 of the SEBI Act.

b. Noticee 3 being the chairman and the managing director of the Company has violated regulations 4(1)(a), (b), (c), (g), (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a), 33(1)(c), 33(2)(a), 34(3) read with Part B of Schedule V of LODR Regulations, regulation 17(8) read with Part B of Schedule II of LODR Regulations, regulation 48 of LODR Regulations read with sections 21 and 24 of SCR Act and section 27 of the SEBI Act.

111. Provisions not reproduced in paragraphs above, are reproduced below:

LODR Regulations

CHAPTER II PRINCIPLES GOVERNING DISCLOSURES AND OBLIGATIONS OF LISTED ENTITY

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:

(2) The board of directors and senior management shall conduct themselves so as to meet the expectations of operational transparency to stakeholders while at

the same time maintaining confidentiality of information in order to foster a culture of good decision-making.

(ii) Key functions of the board of directors-

(*2) Monitoring the effectiveness of the listed entity's governance practices and making changes as needed.*

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

(8) Overseeing the process of disclosure and communications.

(iii) Other responsibilities:

(1) The board of directors shall provide strategic guidance to the listed entity, ensure effective monitoring of the management and shall be accountable to the listed entity and the shareholders.

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

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

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

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

(a) The quarterly financial results submitted shall be approved by the board of directors:

Provided that while placing the financial results before the board of directors, the chief executive officer and chief financial officer of the listed entity shall certify that the financial results do not contain any false or misleading statement or figures and do not omit any material fact which may make the statements or figures contained therein misleading.

17. Board of Directors.
(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

Contravention by companies.

27. (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.*

(2) Notwithstanding anything contained in sub-section (1), where an contravention under this Act has been committed by a company and it is proved

that the contravention has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

Explanation : For the purposes of this section,—

(a) "company" means any body corporate and includes a firm or other association of individuals; and

(b) "director", in relation to a firm, means a partner in the firm.

<u>Role of Noticee 4</u>

112. In the annual report of the Company for FY 2019-20, Noticee 4 has been disclosed as the chief financial officer of the Company during the Investigation Period. In terms of section 2(51) of the Companies Act, 2013, a chief financial officer is also a 'key managerial personnel' of the Company, by virtue of designation.

113. Further, it was observed from the said annual report that:

    a. Noticee 4 has provided the CEO/CFO certification for the FY 19-20, under regulation 33(2)(a) of LODR Regulations, which *inter alia* states that financial results do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading (page 39 of annual report).
    b. Noticee 4 had signed the balance sheet, profit and loss statement, cash flow statement of the Company (page 69, 71 and 73 of the annual report).

114. Statement recording: SEBI issued summons dated July 07, 2022 to Noticee nos. 2 and 4, for personal appearance on July 18, 2022. Noticee 4 appeared on the scheduled date. During the statement recording, Noticee 4 acknowledged that there were mistakes in the financial statements. She had signed the financial statements and CEO/CFO certification, to the "best of her knowledge". She further stated that the financial statements have been revised and submitted to NFRA.

115. Taking the paragraphs into account, it was alleged that Noticee 4 being the chief financial officer of the Company has violated regulation 33(2)(a), 17(8) read with Part B of Schedule II of LODR Regulations read with sections 21 and 24 of SCR Act. The provisions listed are reproduced in paragraphs above.

116. The aforesaid alleged violations, if established, make the Noticees liable for monetary penalty under section 15HB of the SEBI Act and sections 23(a) and 23(H) of SCR Act. The relevant text of the said penal provisions of the SEBI Act and SCR Act are reproduced below:

> ***SEBI Act***
>
> ***Penalty for contravention where no separate penalty has been provided.***
>
> ***15HB.*** *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.*
>
> ***SCR Act***
>
> [1]***[Penalty for failure to furnish information, return, etc.***

[1] Inserted by the Securities Laws (Amendment) Act, 2004, Sec 11, w.r.e.f. 12-10-2004

23A. *Any person, who is required under this Act or any rules made thereunder,—*

(a) to furnish any information, document, books, returns or [2]*[report to the recongnised stock exchange or to the Board, fails to furnish the same within the time specified therefor in the listing agreement or conditions or bye-laws of the recongnised stock exchange or the Act or rules made thereunder, or who furnishes]* [3]*[*** false, incorrect or incomplete information, document, books, return or report], shall be liable to a penalty* [4]*[which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees] for each such failure;*

[5] ***[Penalty for contravention where no separate penalty has been provided.***

23H. *Whoever fails to comply with any provision of this Act, the rules or articles or bye- laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided, shall be* [6]*[liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.]*

117. Noticees submitted their reply to the SCN vide letters dated January 05, 2023 and vide Hearing Notice dated December 29, 2022 the Noticees were provided with an opportunity of hearing on January 06, 2023. Mr. Mukesh Agarwal,

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[2] Substituted for the words "report to a recognised stock exchange, fails to furnish the same within the time specified therefor in the listing agreement or conditions or bye-laws of the recognised stock exchange or who furnishes", by the Finance (No. 2) Act, 2019 w.e.f. 20-01-2020.

[3] Inserted by the Finance Act, 2018 w.e.f. 08-03-2019.

[4] Substituted for the words "'of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less" by the Securities Laws (Amendment) Act, 2014, w.e.f 08-09-2014.

[5] Inserted by the Securities Laws (Amendment) Act, 2004, w.r.e.f. 12-10-2004.

[6] Substituted for the words "liable to a penalty which may extend to one crore rupees" by the Securities Laws (Amendment) Act, 2014, w.e.f 08-09-2014.

Authorised Representative attended the hearing on behalf of all the Noticees. Further, in response to SSCN, Noticees submitted replies dated March 02, 2024.

118. The replies furnished by Noticees are similar and key submissions made by Noticees in their replies are as under:

119. Noticees submit that, the main object of disclosures under LODR Regulations and other provisions under SEBI Act and other securities act is to give true and timely update of the material financial and non-financial information about the Company's performance to the investors / shareholders / stakeholders so that they can invest / trade in the shares of that Company on the basis of correct and timely informations about performance of the Company. So the main object of the disclosures under LODR regulations and other provision of SEBI Act and other securities act is to protect investors / shareholders / stakeholders from wrong and delay disclosures of material informations by the Company. Noticees submit that there is no trading in the Noticee Company after 2001. Last trade was done in the month of December 2001.

120. Since there is no trading in the Noticee Company after 2001, so no investor/ shareholders has been caused any losses due to the disclosure lapses under LODR regulations as allegedly mentioned in the NFRA report.

121. Disclosure and other lapses under LODR regulations and other SEBI regulations were due to mistake on the part of the Statutory Auditor of the Noticee Company who has already been debarred by NAFRA. It is submitted that, the Directors of the Company have relied on the financial statement for financial year 2019-20 prepared by the said Statutory Auditor of the Company.

122. Financial statement for FY 2019-20 prepared as per Accounting Standards and not as per Indian Accounting Standard was unintentional and was due to mistake as the part of the Statutory Auditor. The Company further submits that there is very miniscule difference in profit/loss figure as per the revised financial statement which is as per Indian Accounting Standard for the financial year 2019-20 compared to the Financials prepared under the Accounting Standard. Difference in Profit after Tax is Rs. only Rs. 6.26 Lacs (i.e. only 0.38 % of total operation revenue) which is very miniscule and it also shows that it was unintentional on the part of the Company.

123. There is very miniscule difference in the revenue figure as per accounting standard and Indian accounting standard which is Rs. 00.11 Lacs (00.007 % of total revenue) which is very miniscule and it shows that it was unintentional procedural difference caused by the Statutory Auditor on whose expertise knowledge all the Noticees relied upon in the COVID -19 pandemic time.

124. The Noticees have always ensured to full transparency and duly disclosed all material information to its investors and stakeholders and remained compliant with the applicable laws, which ultimately reflects the bonafide intention of the Noticees of non-cheating any stakeholders of the Company and being the law abiding citizen.

125. The Noticees have subsequently disclosed all the relevant disclosures as alleged to be made in the annual report for FY 2019-20, in the FY 2021-22 annual report. Since prior to this there was continuous communications with the NFRA and the effect couldn't be reflected in the annual report of the FY 2020-21.

126. The allegations as alleged are of procedural in nature and there is no material effect on profit and loss amount and no investor caused loss due to it hence the

Noticees should not be penalized for unintentional mistake under any provisions of the Acts as alleged.

127. The alleged act has not caused any shareholders or investors loss in anyways. The SEBI Act, 1992 is for investors and for public interest and market development, and by the alleged mistake of the noticees, the noticees have not caused any loss to any investors or any other parties including the financial institutions.

128. The subsequent Financial Year 2020-21 wherein the annual report for the FY 2019-20 was supposed to be drafted, prepared and shared to all the stakeholders was period of COVID -19. During the COVID 19 phase the Company activities suffered and all the activities were standstill because of which the Noticees were more dependent on the expert knowledge of the Statutory Auditor of the Company who held the valid Certificate issued from the reputed institute of India 'the ICAI'.

129. It is submitted that in the present circumstances, the Noticee was of the bonafide belief that there was all the material event that required disclosure as per the requirements in the Schedule - III of the LODR regulations and no investor or shareholder is caused any loss due to it.

130. In the present case, no investors or lending institutions of the Noticee have suffered and neither have the shareholders or other stakeholders faced any adverse consequences of such allegations.

131. The matter must be considered in view of the surrounding facts and circumstances, and whether the penalty should be imposed upon failure to perform a statutory obligation is a matter of discretion. In *Escorts Mutual Fund v.*

P Sri Sai Ram, the Ld. Adjudicating Officer of Securities Appellate Tribunal (Appeal No. 38/2001) held that "on a perusal of Section 15I it could be seen that the imposition of penalty is linked to the subjective satisfaction of the Adjudicating Officer. The words in the section that he may impose such a penalty is of considerable significance, especially in view of the guidelines provided by the legislature in Section15]. Reliance was placed on the following:

a. *Order of the Supreme Court in the case of Adjudicating Officer, Securities and Exchange Board of India v. Bhavesh Pabari (AIR 2019 SC 1265),*
b. *Order of Hon'ble Securities and Appellate Tribunal, Mumbai in the case of National Highway Authority of India v. Securities and Exchange Board of India in Appeal No. 232 of 2020.*
c. *SEBI Vs Roofit Industries (2016, 12 SCC 125)*
d. *Siddharth Chaturvedi Vs. SEBI (2016, 12 SCC 119)*

132. As further held in the abovesaid Escorts Mutual Fund v. P Sri Sai Ram, the Hon'ble SEBI Appellate Tribunal has considered following while passing the order:

"43. In the light of the admitted facts it is clear that the failure to comply with the requirements of regulations 56 and 57promptly, was neither wilful nor intentional. It is evident from the adjudication order itself that but for the technicality involved, substantive requirement of disclosure envisaged in the regulation has been met with by the Appellant. The adjudicating officer has accepted this aspect and accordingly did not penalise the Appellant for the failure in complying with the requirements of regulation 56. The reason which prevailed in taking the view for non imposition of penalty for delayed compliance of regulation 56 should in equal force be applicable to the failure to comply with the requirements of regulation 57. In fact, gravity of failure with reference to the time factor, under regulation 57

is comparatively less when compared with the gravity of failure under regulation 56.

44. Taking into consideration the facts and circumstances of the case putforth by the parties and the guiding principles laid down by the Hon'ble Supreme Court in Hindustan Steel case, the decision of the Adjudicating Officer imposing monetary penalty on the Appellant is not tenable. Therefore the impugned order cannot survive and deserves to be set aside. I do so."

133. It is submitted that, as soon as the information asked by the NFRA, the Noticees immediately communicated and have reverted with the corrective steps as required under the LODR and SEBI Act / Companies Act, the Noticees provided disclosures as is required in the annual report except as required were not done in the requisite format. This shows that the intent of the Noticees was bonafide and hence complete disclosures were made. It is only alleged that the disclosures made were not done in the specified format.

134. In the light of the aforesaid arguments, Noticees submit that their actions in no way warrant any of the action against them under the provision of the Section 15HB of the SEBI Act and section 21 and 24 SCR Act.

135. It is submitted that the Adjudicating Officer is statutorily mandated to take into consideration the following criteria specified in Section of the SCRA while determining the quantum of penalty:

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.

136. In the instant case, even if it is assumed (without admitting) that there has been incorrect/not proper format for disclosure, no malafide can be attributed to the Noticee Company. There is no question of any disproportionate gain or unfair advantage made as the result of incorrect format. No amount of loss has been caused to an investor or group of investors as a result of incorrect disclosure as alleged.

137. There has been absolutely no gain or advantage experienced by the Noticees, its Board, officers or employees by alleged mismatch of the format of presentation not as per in IND AS.

138. The Noticees have always been prompt and forthcoming in discharging their contractual and statutory obligations. The Noticees have always promptly acted to address and resolve investors' grievances.

139. Accordingly, it is submitted that it is not mandatory for the Adjudicating Officer to impose penalty every time he comes to the conclusion that any person may have failed to comply with the specified requirements under the SCR Act.

140. Even in criminal law, one important factor is 'intent' which is the key factor for determination of punishment. There is no trading in the company after 2001 and no investor is caused any losses due to the change of format in presentation of the Financials of the Company for FY 2019-20. The Noticee do not had any malafide intention in non-compliance of Indian accounting standard in preparation of financial statement for financial year 2019-20 as alleged.

141. The Noticee submits that *mens rea* being a necessary ingredient of the offence, the Noticee hasn't caused any mistakes to make losses to any of its shareholders

or other investors or misleading to anyone by presenting the financials in the earlier format of AS and not as per the IND AS as required under the LODR Regulations, during the crucial period such a condition and, therefore, the Noticee did no, commit any offence as alleged. On basis of the submissions too the SCN should be dismissed and the Noticees should be set free from allegations under the said SCN setting not guilty under any of the said section under the SCN.

142. The Noticee submits that the AO before handling with the Noticees should do bear in mind before passing any order, the intention and the principle of the common law that 'mens rea/ the intention is an essential element in the commission of any offence against the common law.'

143. SEBI should consider that whether there appears any substantial difference between the disclosure provided in the Accounting standards and Indian Accounting standards as asked for causing loss of information to any shareholders or investors.

CONSIDERATION OF ISSUES AND FINDINGS

144. I have taken into consideration the facts and material available on record. The issues that arise for consideration in the present case are as follows:

I. (i) Whether Noticee 1 has violated Regulations 4(1) (a), (b), (c), (g) and (h), 33(1) (a) (c), 48 and 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Section 21 of SCRA, 1956.

(ii) Whether Noticee 2 has violated Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 48, 34(3) read with part B of

Schedule V of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.

(iii) Whether Noticee 3 has violated Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 33(2)(a), 48, 34(3) read with part B of Schedule V, 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.

(iv) Whether Noticee 4 has violated Regulations 33(2)(a), Regulation 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956.

II. Do the violations, if any, attract monetary penalty under section 15HB of the SEBI Act, 1992 and Section 23A(a) and 23(H) of the Securities Contracts (Regulation) Act, 1956?

III. If the answer to Issue No. I & II is in affirmative, then what should be the quantum of monetary penalty?

Issue I (i) Whether Noticee 1 has violated Regulations 4(1) (a), (b), (c), (g) and (h), 33(1) (a) (c), 48 and 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Section 21 of SCRA, 1956.

145. The SCN and SSCN essentially alleges that the Noticee 1, the Company has serious lapses with respect to accounting and auditing standards and there was misrepresentation in financial statements of PSIL. I have perused the records and have observed that Noticee 1 followed AS Framework for disclosures regarding

many of the balance sheet items and financial statements as opposed to applying the Ind AS Framework. I note that the selection, application and disclosure of Ind AS Framework prescribed under the Companies Act, 2013 is fundamental to ensure that the financial statements are reflecting a true and fair view of the state of affairs of the company, as required by Section 129 of the Companies Act, 2013.

146. Some of the instances of lapses noted with respect to accounting and auditing is as follows:

a. It was observed that Ind AS was applicable to PSIL in the FY 2019-20. However, PSIL has not followed the requirements of Ind AS Framework, while preparing its financial statements, rather it has prepared its financial statements in accordance with AS Framework.
b. Financial statements presented by PSIL did not include statement of changes in equity. Further there were deficiencies in the disclosures of "share capital" and "reserves and surplus"
c. Under the head "Management Discussion and Analysis", PSIL has not discussed some of the matters such as industry structure and developments, opportunities and threats, segment–wise or product-wise performance, outlook, key ratios *etc*. as required by Part B of Schedule Vof LODR.
d. Disclosures in the annual financial statements in respect of the operating and reportable segments of PSIL is inadequate as disclosures as required under paragraphs 31 to 34 of Ind AS 108: Operating Segments, are not made.
e. Disclosures made under the Director's report's on "Business Performance and Segment Reporting" do not provide any value addition and Director's Report lacks information such as the status of orders with PSIL, the growth or degrowth of key numbers like turnover/PBIT, visibility to the future revenue streams etc which may be material to the users of

the financial statements. Hence, it is observed that PSIL has failed to comply with the requirements of Ind AS 108: Operating Segments, regarding certain entity wide disclosures to be made by all entities.

f. Noticee 1 has not disclosed the date when the financial statements were approved for issue, thereby violating the provisions of Ind AS 10: Events after the Reporting Date.

g. PSIL has not made disclosures under paragraph 28 of Ind AS 8: Accounting Policies, Changes in Accounting Estimates and Errors.

h. PSIL's structure and order presentation of "notes on accounts" and order of presentation of significant accounting policies is not in accordance with the principles and requirements of Ind AS 1 and also the prescriptions in Division II of Schedule III to the Companies Act, 2013.

i. PSIL was required to comply with Ind AS1, however, other non-compliances in this respect was also observed as detailed in the Order above.

j. PSIL has not used terminologies as required under IND AS1 and has not presented line items in its financial statements in accordance with the prescribed accounting standards. It is also observed that PSIL has not been consistent and systematic in using the titles of line items in different parts of the financial statements which are cross referenced to each other.

k. The Company has not reported the figures in the financial statements to the nearest hundred or lakhs, as required under the Companies Act, 2013 which is not in accordance with the relevant statutory provisions.

l. "Property, Plant and Equipment" appearing in the balance sheet of the Company bears a cross-reference to Note-1. However, the annual financial statements published on the Company's website does not contain any such note. Due to absence of information regarding a significant area of financial statements *i.e,* Note 1: Schedule of Property, Plant and Equipment, Notice 1 is in violation of Ind AS 16 Property, Plant and Equipment and Schedule III of Companies Act.

m. Incorrect disclosures about Hariyana Metals Ltd. being an associate of PSIL. Contradictory disclosures have been made in form MGT-9, as item III states that PSIL is holding 8.46% shares in Hariyana Metals Ltd. whereas item IV (i) of form MGT-9 states that Hariyana Metals is holding 8.46% in PSIL.

n. Company has failed to recognize its deferred tax liabilities, as per the requirement of Ind AS:12. The said lapse has resulted in PSIL not preparing and disclosing its financial statements in accordance with applicable standards of accounting thereby leading to misrepresentation.

o. Noticee 1 has not recognized any impairment loss, in respect of its trade receivables, despite the latter being unsecured, as required under Ind AS 109. It has also not recognized any impairment provision with respect to its current loans and advances, as required under Ind AS 109. Further, it has not assessed the credit risk of balances held with banks (including of non-scheduled and lesser known banks), as required under Ind AS 109, thus resulting in misstatement of financial statements to the extent of impairment loss provision.

p. The classification and measurement of land and shares as inventories, in the books of the Company, is not in accordance with Ind AS 2. Further, it is observed that recognition of the sale of shares as “revenue from operations” by PSIL is incorrect.

q. Noticee 1 has not created provision for depreciation on plant and machinery and has also not considered the requirements of Ind AS 16. Further, the Company has applied depreciation rates as per Schedule XIV to the Companies Act, 1956 to some of the assets and calculated useful life as per Schedule II to the Companies Act, 2013 to some other assets. Therefore, the Company has not maintained any consistency in application of accounting policies. Company has not recognized any impairment loss on plant and machinery. In summary, by not following the prescriptions of Ind AS 16 and Ind AS 36, the Company has failed to prepare its accounts in accordance with prescribed accounting policy, thereby leading to misrepresentation of financial statements.

r. The Company has not complied with the disclosure requirements of Ind AS 16 (Property, Plant and Equipment), including paragraph 77 of the said Ind AS 16, in respect of certain items of plant and equipment, which have been stated at revalued amounts. Thus, the Company has not implemented the accounting standards in letter and spirit in preparation of financial statement, thereby leading to its misrepresentation.

s. Company has not made any disclosures under Ind AS 19 (Employee Benefits) regarding recognition of post-employment benefits, although it has incurred expenses towards salary and wages. Further, the disclosures made by the statutory auditor of the company in CARO 2020 Report is contradictory to the factual position of the Company, as the Company has not incurred any expenditure for defined benefit/defined contribution plans for employees. Therefore, the Company has failed to give a true and fair view of its financial statements by not complying with the requirements of Ind AS 19.

t. Company has not made the disclosures as required under Ind AS 32, with respect to disclosure of the nature of items under the head “financial assets-current loans and advances”. Further, by disclosing items such as deposit of taxes and duties with government under the head “financial assets-current loans and advances”, the Company has misrepresented its financial statements.

u. PSIL has not made disclosures such as nature and type of borrowing, terms of repayment of loans, nature of security for secured loans *etc*, thus, it has not provided a true and fair view of its financial statements, thereby leading to its misrepresentation.

v. PSIL has provided contradictory figures for the item "cash and cash equivalents" in the statement of cash flows and balance sheet. Further, the Company has prepared its cash flow statement, as per AS 3, under the AS Framework, which is no longer applicable to the Company. Thus, the Company has not prepared and presented its cash flow statement, as required under Ind AS 7: Statement of Cash Flows. The Company has not prepared and disclosed the information in accordance with applicable standards of accounting and financial disclosure.

w. Company has not made disclosures as required under Ind AS 107 and Ind AS 113, in respect of the material category of financial assets and financial liabilities, that may be useful to the investors when evaluating the financial position and performance of the Company, which inturn may lead to misrepresentation of its financial statements.

x. PSIL has made misleading disclosures regarding one of the key elements of financial statements *viz.* "Revenue from Operations" and has also not made any disclosures as required under Ind AS 115. Therefore, the company has not presented its financial statements in accordance with applicable standards of accounting.

y. Company's accounting policy for measuring the provisions on an undiscounted basis, is not as per the requirement of Ind AS 37 (Provisions, Contingent Liabilities and Contingent Assets), which is applicable to it. Thus, the Company has not followed the correct accounting standards, in preparation and presentation of its financial statements.

147. Noticee 1's aforesaid actions like omission and incorrect disclosures and presentation in the financial statements, failure to assess impairment loss

provisions in respect of current loans, advances and bank balances, recognition of sale of shares as revenue from operations, non-provision for depreciation on property, plant and equipment has resulted into misrepresentation of financial statements giving untrue picture to the investors, Overstatement of revenue and net profit.

148. I note that there is an obligation cast on a company to present true and fair view of the financial statements in each and every respect and prepare and disclose financial statements in accordance with applicable standards of accounting and financial disclosures. A company should refrain from misrepresentation and ensure that the annual reports presented do not present a misleading picture. The observations, like deficiencies in / lack of disclosures, lack of discussion in report, lack of requisite information in financial statements, non-adherence of Ind-AS1 standards and other accounting standards as detailed above in order, indicate that Noticee 1 has failed to present a true and fair view of its financial statements, by not following the prescribed accounting standards and policies.

149. In respect to the above instances of non-compliances the Noticees has majorly contended the following:

   a. The main object of disclosures under LODR Regulations and other provisions under SEBI Act and other securities act is to give true and timely update of the material financial and non-financial information about the Company's performance to the investors / shareholders / stakeholders so that they can invest / trade in the shares of that Company on the basis of correct and timely information about performance of the Company. Hence the purpose is to protect investors / shareholders / stakeholders from wrong and delayed disclosures of material information by the Company.
   b. There is no trading in the Noticee Company after 2001 and the last trade was done in the month of December 2001. Hence, no investor/

shareholders have been caused any losses due to the disclosure lapses under LODR regulations.

c. The Company and its have relied on the financial statement for financial year 2019-20 prepared by the said Statutory Auditor of the Company.
d. There is very miniscule difference in profit/loss and revenue figure as per the revised financial statement which is as per Indian Accounting Standard for the financial year 2019-20 compared to the Financials prepared under the Accounting Standard. The mistake was unintentional on the part of the Company.`
e. Noticees have subsequently disclosed all the relevant disclosures as alleged to be made in the annual report for FY 2019-20, in the FY 2021-22 annual report.
f. The subsequent Financial Year 2020-21 wherein the annual report for the FY 2019-20 was supposed to be drafted, prepared and shared to all the stakeholders was period of COVID -19. During the COVID 19 phase the Company activities suffered and all the activities were standstill because of which the Noticees were more dependent on the expert knowledge of the Statutory Auditor of the Company who held the valid Certificate issued from the reputed institute of India 'the ICAI'.
g. Disclosure and other lapses under LODR regulations and other SEBI regulations were due to mistake on the part of the Statutory Auditor of the Noticee Company who has already been debarred by NAFRA.
h. There has been no malafide intention on the part of the Noticees, and no gain or advantage were made by the Noticees, its Board, officers or employees on account of non-compliances. The Noticees have always been prompt and forthcoming in discharging their contractual and statutory obligations, and have always promptly addressed and resolved investors' grievances.

i. the intention and the principle of the common law that 'mens rea/ the intention is an essential element in the commission of any offence against the common law.' may be considered while adjudicating.

150. In reference to the above contentions of the Noticees I note the following:

a. From BSE’s website, it is observed that the last trading in the scrip of Noticee 1 was done on October 10, 2001. I also note from the documents on records that the trading was suspended due to non-submission of Company’s annual report to the stock exchange and publication of the same on the Company’s website as required under LODR Regulations for two consecutive years, March 2017 and March 2018. Further, I note from the BSE’s Notice dated May 05, 2021 on its website that the suspension in trading has been revoked with effect from May 12, 2021, but there is no trading in the scrip.
b. However, though there is no trading in the scrip of Noticee 1, I note that the Noticee 1 is a listed company and is required to comply with the provisions of Companies Act, SCR Act, SEBI Act etc., and the rules and regulations thereunder. The suspension of trading or non-trading of scrip doesn’t absolve Noticee 1 from the legal responsibility of complying with aforesaid statutes.
c. Noticees have not contended the observations in the Financial Reporting Quality Review Report, and SEBI Investigation Report. In fact, the Noticees have accepted that the non-compliances in the respect to accounting, auditing standards and financial statements and have reasoned that these errors are on account of the then Statutory Auditor of Noticee 1, who made mistakes while preparing the financial statements. Noticees have contended that they had bonafide belief and faith in expertise of then statutory auditor, who committed these mistakes. Further, Noticee has also informed that the statutory auditor

has been debarred by NFRA. In respect of the above, I note that the primary responsibility regarding compliances of requisite regulations, and accuracy with respect to its financial statements are on Noticee 1 for which it may avail services of professionals having expertise in the domain. Further, since the financial statements are of Noticee 1, it was incumbent upon the Noticee 1 to ensure, that its devoid of any error or non-compliances, for which it could have adopted proper checks and balances in its working.

d. I also note that though the financial statements as contended even if were prepared by the statutory auditor, the same came before the Noticee 1 and its Board of Directors etc. for perusal and approval, which it approved.

e. Further, I note that the Noticee 1 cannot take refuge under the reason that it was not aware about the legal requirements of accounting standards and merely relied on the expertise of the statutory auditor, since it is noted that "ignorantia juris non excusat" (Latin for "ignorance of the law excuses not"), or "ignorantia legis neminem excusat" ("ignorance of law excuses no one"), is an established legal tenet holding that a person who is unaware of a law may not escape liability for violating that law merely by being unaware of its content. It has been underlined by courts that when a law prescribes a manner in which a thing is to be done, it must be done only in that manner. Noticee 1 should have ensured that while finalizing the financial statements, all the legal requirements were met, and it should have conducted all its due diligence and taken steps to weed out errors and misrepresentation.

f. Further, the Noticees have contended that the difference in pre-revision and post revision revenue and profit figures were minuscule. In this regard, I note that the charge is of non-compliance of the accounting standards, not merely about the quantum of difference in amount, and there are several other instances of non-adherence of prescribed accounting standards, and resultant misrepresentation in the financial statements in view of which the non-compliances are observed.

g. Further the Noticees have contended that the mistakes and resultant non-compliances are unintentional and devoid of any malafide on part of Noticees. Further Noticees have contended that the Noticees have not made any profit or gained unfair advantage because of the non-compliances. Further Noticees have also contended that 'mens rea' is an essential ingredient of an offence, which is to be considered while adjudicating. In this regard, reliance is placed upon the following judgments:

   i. *Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC) which inter-alia has held that - "In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant...".*

   ii. *SAT in the matter of Akriti Global Traders Ltd. Vs. SEBI, decided on 30.09.2014, that "… Argument of appellant that the delay was unintentional and that the appellant has not gained from such delay and therefore penalty ought not to have been imposed is without any merit, because, firstly, penal liability arises as soon as provisions under the regulations are violated and that penal liability is neither dependent upon intention of parties nor gains accrued from such delay..".*

   In view of the above, I am not inclined to accept said contentions of the Noticee.

151. In view of the above, and from the observations made in the preceding paragraphs, it is noted that Noticee 1 has violated regulations 4(1) (a), (b), (c), (g) and (h), 33(1) (a) (c), 48 and 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Section 21 of SCRA, 1956.

Issue I (ii) Whether Noticee 2 has violated Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 48, 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.

152. In respect of Noticee 2, I note that Noticee 2 was the whole time director and KMP (by virtue of designation) of the Company during the FY 2019-20, and attended all the board meetings of the Company during the FY 2019-20. Further Noticee 2 inter alia signed form MGT-9 (extract of annual return), management discussion and analysis report, annexure III, corporate governance report, annexure A referred in the auditor's report, annexure B of auditor's report, schedule 10: significant accounting policies, balance sheet, profit and loss statement, cash flow statement of the Company. Noticee 2 held 45,350 shares of the Company and was a member of the stakeholders relationship committee and had attended its meeting.

153. I note that the Noticee 2 has submitted similar contentions as of Noticee 1 as regards the allegations made against him, which have already been dealt in the order above. Further, Noticee 2 has not contended the observations in the Financial Reporting Quality Review Report, and SEBI Investigation Report. In view of the discussion above in the order regarding the lapses observed and the resultant non-compliances, it is noted that Noticee 2 failed to present true and fair view of the relevant financial statements.

154. In view of the same, I find that the Noticee 2 is violation of Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 48, 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.

Issue I (iii) Whether Noticee 3 has violated Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 33(2)(a), 48, 34(3) read with part B of Schedule V, 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.

155. In respect of Noticee 3 I note that Noticee 3 was the Chairman and Managing Director and KMP (by virtue of designation) of the Company during the Investigation Period, and attended all the board meetings of the Company during the FY 2019-20. Further Noticee 3 inter alia signed form MGT-9 (extract of annual return), management discussion and analysis report, annexure III, corporate governance report, annexure A referred in the auditor’s report, annexure B of auditor’s report, schedule 10: significant accounting policies, balance sheet, profit and loss statement, cash flow statement of the Company; Noticee 3 held 44,050 shares of the Company and was a member of the audit committee and had attended all its meeting. Noticee 3 has provided the CEO/CFO certification for the FY 2019-20, under regulation 33(2)(a) of LODR Regulations, which *inter alia* states that financial results do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.

156. I note that the Noticee 3 has submitted similar contentions as of Noticee 1 as regards the allegations made against him, which have already been dealt in the

order above. Further, Noticee 3 has not contended the observations in the Financial Reporting Quality Review Report, and SEBI Investigation Report. In view of the discussion above in the order regarding the lapses observed and the resultant non-compliances, it is noted that Noticee 3failed to present true and fair view of the relevant financial statements.

157. In view of the same, I find that the Noticee 3 is violation of Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a) (c), 33(2)(a), 48, 34(3) read with part B of Schedule V, 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.

Issue I (iv) Whether Noticee 4 has violated Regulations 33(2)(a), Regulation 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956.

158. In respect of Noticee 4, I note that Noticee 4 was the Chief Financial Officer and KMP (by virtue of designation) of the Company during the Investigation Period, and provided the CEO/CFO certification for the FY 19-20, under regulation 33(2)(a) of LODR Regulations, which inter alia states that financial results do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading (page 39 of annual report). Further Noticee 4, signed the balance sheet, profit and loss statement, cash flow statement of the Company.

159. I note that the Noticee 4 has submitted similar contentions as of Noticee 1 as regards the allegations made against him, which have already been dealt in the order above. Further, Noticee 4 has not contended the observations in the Financial Reporting Quality Review Report, and SEBI Investigation Report. In view of the

discussion above in the order, it is noted that the financial statements contained errors and were not in compliance of accounting/auditing standards and there was misleading misrepresentation.

160. In view of the same, I find that the Noticee 4 is in violation of Regulations 33(2)(a), Regulation 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956.

Issue II. Do the violations, if any, attract monetary penalty under section 15HB of the SEBI Act, 1992 and Section 23A(a) and 23(H) of the Securities Contracts (Regulation) Act, 1956?

161. In light of findings and observations made against the Noticees brought out in the foregoing paragraphs, I hold that Noticees have violated aforesaid provisions of LODR Regulations. The said violations makes the respective Noticees liable for monetary penalty under the provisions of Sections 15HB of SEBI Act and Section 23A(a) and 23(H) of the Securities Contracts (Regulation) Act, 1956. In this regard, reliance is placed upon the judgment of Hon'ble Supreme Court of India in the matter of *SEBI Vs. Shri Ram Mutual Fund [2006] 68 SCL 216(SC) which inter-alia has held that - "In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant...".*

Issue III. If the answer to Issue No. I & II is in affirmative, then what should be the quantum of monetary penalty?

162. While determining the quantum of penalty under the provisions of section 15HB of the SEBI Act, 1992 and Section 23A(a) and 23(H) of the Securities Contracts

(Regulation) Act, 1956, it is important to consider the relevant factors as stipulated in Section 23J of SCRA and Section 15J of the SEBI Act, respectively, which reads as under:

SCRA Act, 1956

23J *Factors to be taken into account by the adjudicating officer.—While adjudging the quantum of penalty under section 23-I, the adjudicating officer shall have due regard to the following factors, namely:—*

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

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

(c) the repetitive nature of the default.

SEBI Act, 1992

Factors to be taken into account while adjudging quantum of penalty

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

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

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

(c) the repetitive nature of the default.

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

163. In the present matter, I note from the material available on record, there is no details available if any disproportionate gains was made by the Noticees or the quantum of monetary loss to the investors on account of default by the Noticees in the instant matter. Further, I note that there are no other complaints against the Noticees on the records. Further, there is no trading in the scrip since October 2001. Also I keep in mind the various submissions made by the Noticees regarding the specific circumstances in which the financial statements were made and subsequent corrective action taken by the Noticees.

164. Accordingly, I feel appropriate to levy a penalty, which is commensurate with the nature of violations and which acts as a deterrent factor for the Noticees and others in protecting the interest of the investors in securities market.

ORDER

165. Having considered all the facts and circumstances of the case, the material available on record, the factors mentioned in Section 15J of the SEBI Act and Section 23J of SCRA and in exercise of the powers conferred upon me under Section 15-I of the SEBI Act read with Rule 5 of the SEBI Adjudication Rules 1995; and Section 23I of SCRA read with Rule 4 of SCR Adjudication Rules, 2005, I hereby impose following penalties on the Noticees:

Sr. No.	**Noticee**	**Violative Provisions**	**Penalty Provisions**	**Amount of penalty (in ₹)**
1.	Prabhu Steel Industries Limited	Regulations 4(1) (a), (b), (c), (g) and (h), 33(1) (a) (c), 48 and 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Section 21 of SCRA, 1956.	Section 15HB of the SEBI Act, 1992 and Section 23A(a) and 23(H) of the Securities Contracts (Regulation) Act, 1956	3,00,000/ (Three Lakhs only)

2.	Harish Gangaram Agrawal	Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a)(c), 48, 34(3) read with part B of Schedule V of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.	Section 15HB of the SEBI Act, 1992 and Section 23A(a) and 23(H) of the Securities Contracts (Regulation) Act, 1956	3,00,000/ (Three Lakhs only)
3	Dinesh Gangaram Agrawal	Regulations 4(1) (a), (b), (c), (g) and (h), 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(12), 33(1)(a)(c), 33(2)(a), 48, 34(3) read with part B of Schedule V, 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956 and Section 27 of the SEBI Act, 1992.	Section 15HB of the SEBI Act, 1992 and Section 23A(a) and 23(H) of the Securities Contracts (Regulation) Act, 1956	3,00,000/ (Three Lakhs only)
4	Akshita Harish Agrawal	Regulations 33(2)(a), Regulation 17(8) read with Part B of Schedule II of SEBI LODR Regulations read with Sections 21 & 24 of SCRA, 1956.	Section 15HB of the SEBI Act, 1992 and Section 23A(a) and 23(H) of the Securities Contracts	3,00,000/ (Three Lakhs only)

			(Regulation) Act, 1956	

166. I am of the view that the aforesaid penalty is commensurate with the violation/allegations levelled against the Noticees.

167. The Noticees shall remit / pay the said amount of penalty within 45 days 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 AO → PAY NOW

168. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

169. In terms of Rule 6 of the SEBI Adjudication Rules and Rule 6 of the SCR Adjudication Rules, copy of this order is sent to the Noticees and also to the SEBI.

Place: Mumbai **ASHA SHETTY**

Date: April 10, 2024 **ADJUDICATING OFFICER**