BEFORE SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTIONS 11(1), 11(4), 11(4A), 11B(1) AND 11B(2) OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992

In respect of:

Noticee No.	Name of the Noticee	PAN
1	Cerebra Integrated Technology Limited.	AAACC5941K
2	Mr. Ranganathan Venkatraman	ABOPR2170F
3	Mr. Vishwamurthy Phalanetra	AANPV2162M
4	Mr. Kishan S Rao	ARXPK0976D
5	Mr. H S Venkatesh	AAHPV2269D

IN THE MATTER OF MISSTATEMENTS IN THE FINANCIAL STATEMENTS OF CEREBRA INTEGRATED TECHNOLOGY LIMITED

(The aforesaid entities are hereinafter referred to by their respective names/serial numbers or collectively as "the Noticees")

Background:

1. SEBI conducted an investigation of Cerebra Integrated Technologies Limited (hereinafter referred to "**Cerebra**"/"**CITL**"/"**the Company**"/"**Noticee No.1**"*)*, based on the examination report of NSE, wherein it was observed and alleged that the company and its directors had misrepresented the financial statements, misappropriated the funds, inflated its sale/purchase figures and failed to take approval from its audit committee/shareholders for the related party transactions (**'RPT'**). Further, it was also alleged that the Managing Director (**MD**), the Whole Time Director (**WTD**) and the Chief Financial Officers (**CFO**s) of the company failed to exercise duty of care by misrepresenting the financials and failed to discharge their fiduciary responsibility. In view of the above, the Noticees were alleged to have violated the provisions of Securities and Exchange Board of India Act, 1992 *(hereinafter referred to as "**SEBI Act**")* read with the SEBI (Prohibition of Fraudulent and Unfair

Trade Practices Relating to Securities Market) Regulations, 2003 *(hereinafter referred to as "**PFUTP Regulations**")* and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 *(hereinafter referred to as "**LODR Regulations**").* The investigation period is FYs 2019-20, 2020-21, 2021-22 and 2022-23 *(hereinafter referred to as "**Investigation period**" or "**IP**")*. However, whenever deemed necessary, references were made to the events/ timeframes outside this period.

2. Accordingly, a show cause notice dated September 02, 2024 (hereinafter referred to as "**SCN**") was issued by the Securities and Exchange Board of India (hereinafter referred to as "**SEBI**") to the Noticees asking them to show cause as to why suitable directions be not issued under Sections 11(1), 11(4), 11(4A), 11B(1) and 11B(2) of the SEBI Act against them.

3. Based on the findings of the investigation, the following were observed:

   i. CITL, without any justifiable reasons, failed to furnish various information, details etc., as sought vide summons dated October 12, November 21, December 22, 2023 and February 21, 2024 and thereby violated Section 11C (2) read with 11C (3) of SEBI Act.

   ii. CITL entered into RPTs Rs.69.62 crore, without the prior approval of audit committee as well as the shareholders of the company and thereby failed to comply with the regulation 23(2), 23(4), 23(9), 34 and 48 of the LODR Regulations.

   iii. CITL failed to make provision for the bad and doubtful receivables in accordance with the applicable Indian Accounting Standards (Ind AS)-109 which led to misstatement/misreporting of the financials of the company for the financial year 2022-23, as well as falsely inflated the trade receivable which led to misstatement/misreporting of the financials of the company for the financial year 2019-20.

   iv. CITL failed to make any disclosures, as stipulated in the SEBI Circular No. CIR/CFD/CMD/4/2015 dated September 09, 2015 in respect of the sale of its subsidiary to Technow, other than the date of share transfer agreement, which is in violation of Regulation 30 of the LODR Regulations, read with SEBI Circular No. CIR/CFD/CMD/4/2015 dated September 09, 2015.

v. CITL misappropriated/ misutilised the entire amount of the funds of Rs.26.88 crore in the guise of the advances to vendors for supply of plant and machinery in violation of the provisions of Regulation 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(7) 4(2)(f)(iii) (12) and 17(8) Regulation of LODR Regulations, read with Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of the PFUTP Regulations and Section 27(1) of SEBI Act.

vi. CITL overstated its sales by Rs.51 crores and Rs.120 crores in the FYs 2017-18 & 2018-19 and purchases by Rs.43 crores and 104 crores in the FYs 2017-18 & 2018-19 respectively, which led to misrepresentation/misstatements of the financials of the company. Further, CITL failed to make impairment provision of investment/advances/ loan to Cerebra LPO India Limited in terms of Ind AS-36 which resulted in overstatement of its financial statements by an amount of Rs.5.98 crore during the investigation period i.e. for FYs 2018-19, 2019-20, 2020-21, 2021-22 and. 2022-23 in violation of provisions of Regulation 4(1) of the PFUTP Regulations. And also as the aforesaid act of manipulated financial figure impact on the CITL scrip's price, it is in violation of the provisions of Regulations 4(2)(e) of PFUTP Regulations. Further, by publishing and disseminating the company's financial statements to the stock exchange, which were false and misleading, CITL has violated the provisions of Regulation 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

4. In view of the aforesaid observations, the SCN alleged the following provisions of law:
   a) Noticee No.1 being the company, allegedly
      i. misutilised/diverted/ misappropriated funds and knowingly reported wrong, false and misleading statements/ information
      ii. continued to create an impression among the investors that the allegedl/misrepresented/misstated financial statements for FYs 2018-19, 2019-20, 2020-21 2021-22 and 2022-23 were reflecting a true and fair view of the financial performance and position of Noticee No.1.
      iii. misled and defrauded the investors in making their investment decision in the scrip

iv. failed to provide information sought vide summons dated October 12, 2023, November 21, 2023, December 22, 2023 and February 21, 2024, required for the investigation in the matter,

v. failed to take approval of audit committee and shareholders for RPTs; and

vi. failed to disclose material events adequately

b) The above observations resulted in the alleged violation of the provisions of Regulations 4(1), 4(2), 23(2), 23(4), 23(9), 30, 33(1), 34(3) and 48 of LODR Regulations, Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k) & 4(2)(r) of the PFUTP Regulations, Section 11C(2) read with Section 11C(3) of the SEBI Act and SEBI Circular no. CIR/CFD/CMD/13/2015 dated November 30, 2015 by Noticee No.1.

c) Noticee No.2 being the MD and Noticee No.3 being the WTD and CFO failed to perform their duties and obligations which resulted in misutilisation/ diversion/ misappropriation of funds and publication of manipulated/ misrepresented/misstated financial statements of CITL for FYs 2018-19, 2019-20, 2020-21 2021-22 and 2022-23 including furnishing false certification of the company's financial statements, resulting in the violation of the provisions of Regulation 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(7) 4(2)(f)(iii) (12) and 17(8) Regulation of LODR Regulations, Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of the PFUTP Regulations and Section 27(1) of SEBI Act.

d) Finally, Noticee No.4 and Noticee No.5, being the CFOs, failed to perform their duties and obligations which resulted in misutilisation/ diversion/ misappropriation of funds and publication of manipulated/ misrepresented/misstated financial statements of CITL for FY 2021-22 and have violated the provisions of Regulation 17(8) of LODR Regulations, Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of the PFUTP Regulations and Section 27(1) of the SEBI Act.

Show Cause Notice, Reply and Hearing:

5. Accordingly, a common SCN dated September 02, 2024, was served to the Noticees vide through SPAD and were duly delivered. Thereafter, the Noticee filed their written submissions in the matter, pursuant to which personal hearing in the matter was scheduled on December 11, 2024. A common

Authorised Representative (AR) appeared on behalf of the Noticees during the said personal hearing and reiterated the submissions made by the Noticees vide their respective replies. Thereafter, the AR sought extension of time to file additional submissions in the matter. The details of the replies and additional submissions of the Noticees are as under;

Noticee No.	Name of the Noticee	Date of reply	Date of Additional Submissions
1	Cerebra Integrated Technology Limited.	23.10.2024	21.12.2024
2	Mr. Ranganathan Venkatraman	23.10.2024	21.12.2024
3	Mr. Vishwamurthy Phalanetra	23.10.2024	21.12.2024
4	Mr. Krishna S Rao	24.09.2024	20.12.2024
5	Mr. H S Venkatesh	21.09.2024	20.12.2024

6. **Submission of the Noticees:** Noticee Nos.1, 2 and 3 have submitted a similar reply vide their replies dated 23.10.2024 and all the Noticees have made similar additional submissions vide their letters dated 20.12.2024 and 21.012.2024. The summaries of the replies are as under;

The summary of similar replies dated 23.10.2024 submitted by Noticee Nos. 1, 2 & 3 and the summary additional submissions of all the Noticees;

i. As regards the allegation of conducting fraudulent transactions, it was submitted that they always tried and executed business plan in the interest of the shareholders, never made any efforts to inflate sale/purchases as they taken based on prevailing requirement from time to time with the approval of the board.

ii. As regards the allegation of failure to furnish information and non-cooperation during the investigation, it was submitted that they always provided the information and fully co-operated with the exception of few delays due to searching and retrieving of the rather old data. Also, Noticee No. 3 took over only in November 2022 and information was taking time to collate as they were requested over phone. Further, the copy of the order sealing/seizing of the Dubai based subsidiary was pasted on the Dubai office and they do not have a copy of the same.

iii. As regards the allegation of entering into related party transactions of Rs. 69.62 Crores, without requisite approvals, it was submitted vide reply dated 23.10.2024 that the said amount was with regard to the balances towards receivables from Cerebra Middle east FZCO Transaction, which was decided to discontinued. The valuation and sale agreement of the said company was already provided. Thereafter, vide the additional submissions they also submitted that the capital advance provided to Cerebra FZCO (Dubai) without obtaining requisite approvals from the audit committee and shareholders was a procedural lapse. The transaction was a legitimate business advance to a subsidiary, undertaken in good faith with no intent to contravene regulatory provisions. The omission to secure approvals was inadvertent and does not undermine the bona fides of the

transaction. Therefore, the company be granted an opportunity to rectify this oversight through appropriate shareholder ratification or as per the guidance issued by SEBI. In this regard, Noticee No.2 and 3 submit that they acted in good faith, relied on the compliance procedures managed by the Company Secretary and in the absence of any evidence demonstrating their active participation or neglect in ensuring compliance for this specific transaction, it is submitted that the allegation against them is not sustainable. Furthermore, the transaction was legitimate and intended to advance the company's business interests, with no malafide intent or harm caused to stakeholders. Also Noticee No.s 4 & 5 were neither in office nor associated with any position of authority when the alleged transactions occurred, therefore is the said allegation not applicable to them.

iv. As regards the allegation of not making provisions for bad and doubtful debts it was submitted vide reply dated 23.10.2024 that since they decided to sell Cerebra FZCO (Dubai), they had executed the sale agreement and are yet to receive the proceeds, they had not made any provisions but was reported in the respective financials. Thereafter vide the additional submissions, they submitted that the said sale of Cerebra FZCO was conducted with due diligence and in the best interests of the company and its shareholders. Further, the buyers have an established relationship with the subsidiary, having previously held key leadership roles such as Vice President and CEO of Cerebra FZCO which significantly mitigated the risk of recoverability concerns. Furthermore, the deal terms exceeded the anticipated market value for the subsidiary, which was operating in a financially negative position, and the agreed consideration enabled recovery of outstanding dues as well as included an additional Rs.15 crore, representing a favorable transaction from the perspective of the company and its shareholders. They also submitted that it is categorically denied that there was any misstatement or misreporting in the company's financials for FY 2022-2023, as alleged and the company acted prudently and transparently, and the allegations regarding bad or doubtful receivables are baseless and unwarranted. In this regard, Noticee Nos. 2 and 3 submit that they are not liable for the alleged noncompliance, as the assessment of receivables and the need for provisions fall outside their direct operational responsibilities. The transaction were executed transparently and in good faith, with no intent to mislead or misstate the financials. It is respectfully submitted that the allegation against them lacks merit and should be dismissed. Further, it was submitted by Noticee No. 4 that he was neither in office nor associated with any position of authority when the alleged transactions occurred, therefore is the said allegation not applicable to him. Finally, Noticee No. 5 submitted that the statutory auditor's report for FY 2022-2023 was prepared after he resigned on August 30, 2022 and 3 months' time was granted to fulfil the obligations specified in the agreement dated March 17, 2022, which became a part of the financials of FY 2023, therefore benefit of the doubt has to granted to Noticee No. 5 in this regard.

v. As regards the allegation of inadequate disclosure of Sale agreements with Technow, it was submitted vide the reply that a copy of the extension letter signed with the party until March 2025 has been enclosed along with the reply. Further, vide the additional submissions, it was submitted that while the disclosure was made in good faith, certain technical aspects were inadvertently omitted by the Company Secretary, who was responsible for ensuring compliance with the prescribed format and content requirements of the regulation. This omission, however, was unintentional and devoid of any mala fide intent. It was also submitted that the company seeks to rectify the defect promptly and requests that this oversight be viewed leniently, considering the absence of any mala fide intent and the genuine willingness to comply with SEBI's instructions to rectify the matter. In this regard, Noticee Nos. 2 & 3 submitted that they are not liable for the alleged noncompliance as the procedural aspects of obtaining requisite approvals fall outside their direct operational responsibilities. The transaction was conducted in good faith, and there is no evidence of willful default or negligence on their part and the allegation against them is unwarranted and should be dismissed. Further, it was submitted by Noticee No. 4 that he was neither in office nor associated with any position of authority when the alleged transactions occurred, therefore is the said allegation not applicable to him. Thereafter, Noticee No. 5 submitted that the sale agreement dated March 17, 2022, in this regard was signed by the Noticee No. 5 in good faith even though the preliminary

dealings and oral communications leading to this transaction were conducted prior to his joining. Further the technical lapses in disclosure was handled by another department and cannot be attributed to him. Therefore, benefit of the doubt ought to be given to Noticee No. 5.

vi. As regards the allegation of misappropriation/ misutilization/ diversion/ siphoning off the funds amounting to Rs. 26.88 crore in the guise of the advances to vendors, it was submitted vide the reply that all payments in this regard were effected through bank transfer/ cheques, therefore the question of misutilisation/ misappropriation/ diversion/ siphoning off cannot be applicable and these decisions were made by the management in the best interest with the available resources. Thereafter, vide the additional submissions, it was stated that the advances in question were given to JM Enterprise and Roshan Enterprise for the purchase of machinery. Upon verification, the machinery supplied by these entities was found to be inconsistent with the required specifications, resulting in the cancellation of the purchase orders. Consequently, the company was compelled to write off the advances to comply with regulatory requirements and avoid further remarks from statutory auditors concerning doubtful receivables. The decision to write off these amounts was made in the interest of maintaining transparency in the financial statements and not indicative of any misappropriation or diversion of funds. They further submitted that it is pertinent to note that the transactions under scrutiny were executed during the tenure of the company's previous CFO and his team. Following the unfortunate demise of the CFO on August 16, 2020, tracking the complete records, documentation, and relevant proofs related to these transactions has proven to be a significant challenge. The absence of such records hampers the company's ability to file a criminal complaint against the involved vendors. However, civil recovery actions or other appropriate recovery measures, as advised by a reputed and learned advocate, will be diligently pursued by the company.

vii. Furthermore, in this regard, it was submitted that the owners of JM Enterprise and Roshan Enterprise have been questioned regarding these transactions. While their statements have been recorded, the company was not provided an opportunity to cross-examine these individuals. The lack of cross-examination constitutes a significant procedural lapse and violates the principles of natural justice. The company reserves its right to challenge these allegations, and no adverse inference should be drawn solely on the basis of the recorded statements. As directed by SEBI, the company is prepared to initiate legal recovery actions against JM Enterprise and Roshan Enterprise under the guidance of a reputed legal counsel. These actions will be pursued in good faith to protect the company's financial interests. However, it is reiterated that treating the advances as doubtful receivables and subsequently writing them off does not constitute misappropriation or diversion of funds under any circumstances. The company remains committed to compliance with all regulatory directives and will take appropriate corrective actions as advised by SEBI. In this regard, Noticee Nos. 2 and 3 have submitted that cannot be held liable for the alleged misappropriation, misutilization, diversion, or siphoning off of funds, as these matters fall outside their direct operational responsibilities. The advances in question were legitimate business transactions, and any subsequent lapses were historical and procedural rather than intentional. They have acted in good faith and remain committed to transparency and compliance. Thus, the allegation against them is without merit and should be dismissed. Further, Noticee Nos. 4 & 5 submitted that they had resigned before the filings were made therefore, the said allegation is not applicable to them.

viii. As regards the allegation of inflation of trade receivables by Rs. 17.86 crore, it was submitted vide the reply that all the receivable are of the proper sales transactions. Further, due to GST, liabilities were discharged and reported, hence inflation of trade receivables does not arise. Further, vide their additional submissions, they have stated that, the reference to Kubera in the SCN demonstrates a misunderstanding or misrepresentation of facts. They have also submitted that the transaction involving Kubera, amounting to Rs. 17.86 crore, is unrelated to the RFID project and pertains to a completely different matter. Any attempt to conflate the two transactions lacks merit and serves only to mislead. Further, the company has not been granted an opportunity for cross-

examination regarding the Kubera dealings, which contravenes principles of natural justice. It is emphasized that the amounts reported as trade receivables in FY 2019—2020 were legitimate and reflective of the company's efforts to recover the dues at that time. The eventual bankruptcy of the US-based client necessitated a reclassification of the receivables, which the company has been prepared to undertake in subsequent reporting periods. However, at the time in question, the financial statements were accurate and free of any misstatement. In conclusion, the allegation of inflating trade receivables is unfounded and unsupported by substantive evidence. Therefore, the company acted transparently and in accordance with accounting standards and regulatory norms and these allegations should, therefore, be dismissed. Next, Noticee Nos. 2 & 3 have submitted that they cannot be held liable for the alleged inflation of trade receivables. The amounts recorded were legitimate and consistent with accounting standards, based on the information available at the time. They reasonably relied on the expertise of the finance team and external auditors. The allegation of inflating trade receivables is unsubstantiated and should be dismissed. Thereafter, Noticee Nos. 4 & 5 have submitted that they joined the company after the alleged transactions, therefore, the said allegation is not applicable to them.

ix. As regards the allegation of inflation of Sale/Purchase transactions of Noticee 1, it was submitted vide the reply that, all the relevant transactions in this regard are recorded as per the prevailing GST and rules and taxes towards the same were discharged suitably. Further, they were reported suitably in the respective financials, hence, the question of inflation does not arise. Thereafter, vide the additional submissions, it was sated that, Noticee No.1's transactions with Kubera Enterprises and Lakshmi Metals were conducted in a transparent and legitimate manner, adhering to all regulatory requirements. The allegations of circular transactions and inflated sale/purchase transactions are speculative, unsupported by evidence, and without merit. In this regard, Noticee Nos. 2 & 3 submitted that they cannot be held liable for the alleged inflation of sale and purchase transactions. The transactions were conducted transparently and supported by legitimate documentation. They had no involvement in or knowledge of the alleged fund transfers between Kubera Enterprises and Lakshmi Metals. The allegation is unsubstantiated, and the charges against them should be dismissed. Further, Noticee Nos. 4 & 5 submit in this regard that the violation predates their appointment and therefore, the said allegation is not applicable to them.

x. As regards the allegation of not making provision for impairment of investment and advances/loans to Cerebra LPO India Limited, it was submitted vide the reply that, Cerebra LPO India Limited was started with the business to create and expand the business in Legal Process Outsourcing. In the USA and the UK the legal costs were on the rise and number of cases also tripled, this led to the formation of Cerebra LPO India Limited. However, over a period of time, the management started feeling it is not worth going ahead. Cerebra currently in the process of finding the party to buy its subsidiary and hope that the amount of payment effected towards trade will be recovered. Thereafter, vide the additional submissions, it was sated that, the decision to not make a provision for impairment of the investment and advances/loans to Cerebra LPO was made in compliance with IND AS 36 and based on legitimate business considerations. The subsidiary's ongoing operations and recovery efforts substantiate the management's judgment. The allegation of non-provision lacks merit, and needs to be dismissed. In this regard, Noticee Nos. 2 & 3 submitted that they are not liable for the alleged non provision for impairment of investments and advances to Cerebra LPO. The assessment of impairment is a technical matter managed by the finance team, and no evidence suggests negligence or intent on their part. The subsidiary's ongoing operations and active recovery measures further substantiate the management's decision. The allegation against them is without merit and should be dismissed. Further, Noticee Nos. 4 & 5 submit that these transactions predate their appointment and therefore, the said allegation is not applicable to them.

xi. As regards the impact of the manipulated financial figures on the price of the Scrip and offloading shares by the promoters, it was submitted vide their reply that, the management reported all the information to BSE/NSE from time to time. Accordingly, audited financials were presented to the Board and published and shares with

all concerned. Therefore, there cannot be any manipulation of the financial figures which impacted the scrip. Thereafter, vide their additional submissions, Noticee Nos. 2 & 3 submitted that, the allegation lacks substantive basis. They were not involved in the alleged activities and acted in full compliance of the regulatory and legal obligations. Therefore, the said allegation should be dismissed.

xii. As regards the allegation of failure to furnish information and Non-cooperation during investigation, it was submitted vide their reply that, the copy of the order sealing/seizing of the Dubai based subsidiary was pasted on the Dubai office and they do not have a copy of the same.

xiii. Judgments relied upon;

1. **Sundaram Finance Ltd. v. State of Kerala**, (1966) 2 SCR 828, which states that "*Directors and officers of a company are entitled to rely on the expertise and professional judgment of qualified individuals, such as finance teams and auditors, provided such reliance is in good faith and there is no reason to suspect misconduct*."

2. **Official Liquidator v. P.A. Tendolkar**, (1973) 1 SCC 602, which states that "*Directors are not expected to micromanage every operational or technical aspect of the company. They can rely on competent professionals unless there is evidence of willful negligence or misconduct*."

3. **SEBI v. Shriram Mutual Fund & Another**, (2006) 5 SCC 361, which states that "Liability for violations arises only when there is a clear nexus between the individual's actions and the alleged misconduct. A director cannot be held accountable for technical lapses unless it is proven that they acted with intent or negligence."

4. **ICAI v. Ajay Kumar Gupta**, AIR 2016 SC 1716, which states that "The role of directors includes setting overall policy and strategy, not technical accounting or operational decisions. Errors in financial assessments do not constitute misconduct unless they result from intentional acts."

5. **State of Haryana v. Bhajan Lal**, 1992 supp (1) SCC 335, which states that "A person cannot be held liable under regulatory frameworks without evidence of mens rea (intent to commit wrongdoing). Honest mistakes or errors in judgment made in good faith do not attract liability."

Noticee No. 4 – September 24, 2024

- The Noticee submitted that he had joined Noticee No.1 on January 2021 and left the company on November 2021 due to family property reasons.
- He had joined in the place of the ex-CFO and took over the finance of the company without any proper "knowledge transfer" about the account books.
- He was not a part of the transactions mentioned in the SCN as they pertain to the period prior to his appointment in the organization and also confirms that no such fraudulent transactions have happened during his tenure in the company.
- He has sought to be excused from this case.

Noticee No. 5 – September 21, 2024

- The Noticee submitted that he joined Noticee No.1 in January 2022 and worked only for 8 months i.e. till August 2022 after which he had resigned due to health issues.
- He was not a part of the transactions mentioned in the SCN as they pertain to the period prior to his appointment in the organization and he was not aware of the fraudulent transactions.
- He has sought to be excused from this case.

Consideration of Issues and Findings:

7. I have carefully perused the submissions made by the Noticees and documents available on record and accordingly the following issues require consideration:

Whether the Noticees have violated the relevant provisions of PFUTP Regulations, read with SEBI Act and LODR Regulations?

8. Before I further proceed in the matter, it is pertinent to refer to the relevant provisions of SEBI Act, LODR Regulations and PFUTP Regulations, alleged to have been violated by the Noticees, as per the SCN. The same are reproduced herein below:

<u>SEBI Act, 1992</u>

Section 11C: Investigation.

(1) **…….**

(2) Without prejudice to the provisions of sections 235 to 241 of the Companies Act, 1956 (1 of 1956), it shall be the duty of every manager, managing director, officer and other employee of the company and every intermediary referred to in section 12 or every person associated with the securities market to preserve and to produce to the Investigating Authority or any person authorised by it in this behalf, all the books, registers, other documents and record of, or relating to, the company or, as the case may be, of or relating to, the intermediary or such person, which are in their custody or power.

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

Section 27: Contravention by companies.

(1) Where a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder has been committed by a company, every person

who at the time the contravention was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

PFUTP Regulations

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

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

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

(2) Dealing in securities shall be deemed to be a manipulative, fraudulent or an unfair trade practice if it involves any of the following: —

(a) ....

(e) any act or omission amounting to manipulation of the price of a security including, influencing or manipulating the reference price or bench mark price of any securities;

(f) knowingly publishing or causing to publish or reporting or causing to report by a person dealing in securities any information relating to securities, including financial results, financial statements, mergers and acquisitions, regulatory approvals, which is not true or which he does not believe to be true prior to or in the course of dealing in securities;

….

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

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

<u>SEBI (LODR) Regulations</u>

Regulation 4: Principles governing disclosures and obligations.

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

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

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

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

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

(e) The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made thereunder, are adequate, accurate, explicit, timely and presented in a simple language.

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

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

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

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

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

(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.

Regulation 23: Related Party Transactions:

(1) ……..

Proviso of Regulation 23(1): A transaction with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds rupees one thousand crore or ten per cent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

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

(3) ……

(4) All material related party transactions shall require prior approval of the shareholders through resolution and no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not.

……

(9) The listed entity shall submit to the stock exchanges disclosures of related party transactions in the format as specified by the Board from time to time, and publish the same on its website.

Regulation 30: Disclosure of events or information.

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

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

(3) *……..*

Regulation 33: Financial results:

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

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

(b) *……..*

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

Regulation 34: Annual Report.

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

Regulation 48: Accounting Standards.

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

Regulation 4(2)(f): *Responsibilities of the board of directors: The board of directors of the listed entity shall have the following responsibilities:*

Disclosure of information*:*

4(2)(f)(i) (1)…..

4(2)(f)(i)(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."

Key functions of the board of directors:

4(2)(f)(ii)(2) Monitoring the effectiveness of the listed entity's governance practices and making changes as needed."

4(2)(f)(ii)(6) Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.

4(2)(f)(ii)(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."

Other responsibilities:

4(2)(f) (iii)(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.

4(2)(f) (iii)(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.

4(2)(f) (iii)(6) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.

4(2)(f)(iii)(7) The board of directors shall exercise objective independent judgement on corporate affairs."

4(2)(f)(iii) (12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.

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

The provisions of the SEBI Circular dated September 09, 2015 are as below:

As per para A. 1. 1.4 of Annexure 1 to SEBI Circular no. CIR/CFD/CMD/13/2015 dated September 09, 2015, for sale or disposal of unit (s) or division(s) or subsidiary of the listed entity, *the listed entity needs to disclose events that are deemed to be material, which includes the following:*

a) *The amount and percentage of the turnover or revenue or income and net worth contributed by such unit or division of the listed entity during the last financial year.*
b) *Date on which the agreement for sale has been entered into.*
c) *The expected date of completion of sale/disposal.*
d) *Consideration received from such sale/disposal.*
e) *Brief details of buyers and whether any of the buyers belong to the promoter / promoter group / group companies. If yes, details thereof.*
f) *Whether the transaction would fall within related party transactions? If yes, whether the same is done at "arm's length";*
g) *Additionally, in case of a slump sale, indicative disclosures provided for*

amalgamation/merger, shall be disclosed by the listed entity with respect to such slump sale.

9. Firstly, I note that in the SCN dated September 02, 2024, the name of Noticee No. 4 i.e. Mr. Kishan S. Rao (PAN No. ARXPK0976D), was recorded as Mr. Krishna S. Rao with PAN No. ARXPK0976D. Accordingly, the SCN and hearing notice was issued to Noticee No. 4 under the name Mr. Krishna S. Rao with PAN No. ARXPK0976D. However, since, it is observed from his replies and PAN submitted to the undersigned during the personal hearing that the correct name of Noticee No.4 is Mr. Kishan S. Rao (PAN No. ARXPK0976D), in this order, Noticee No. 4 has been referred to as Mr. Kishan S. Rao with PAN No. ARXPK0976D.

10. Further, I note that one of the entities mentioned in the matter i.e. M/s. Kuberaa Enterprises has been referred by various spellings, i.e. Kuberaa, Kubera, Kuberra etc., in the SCN. However, as seen from the bank account statement of the said company, the spelling mentioned therein is M/s. Kuberaa Enterprises. Accordingly, in this order the said entity is being referred to as **'Kuberaa'**.,

11. I now proceed to consider the matter on merits.

12. I note that Noticee No.1 was incorporated in December 31, 1993 and its registered office is situated at "*S-5 Off 3rd Cross Peenya Industrial Area, Peenya 1st stage, Bengaluru, Karnataka-560058*". Noticee No.1 is engaged in the business of e-waste recycling, refining and refurbishment, electronic manufacturing services and IT infrastructure management. Further, the shares of Noticee No.1 are listed on National Stock Exchange & Bombay Stock Exchange *(hereinafter referred to as "**NSE**" & "**BSE**" respectively)*.

13. A brief detail of Noticee No.1's shareholding pattern, directorship and financial overview during Financial Year ("FY") 2019-20, 2020-21 and 2021-22 is as under:

Shareholding pattern of CITL

Table no. 1

Shareholding (%) as on	**31st March 2020**	**31st March 2021**	**31st March 2022**
Promoters group	7.10	7.30	5.05
Non-promoter group	92.90	92.70	94.95
Total	100.00	100.00	100.00

Board of Directors of CITL

Table no.2

Sl. No.	Name of entity	Designation	Appointment Date	Cessation Date
(i)	Ranganathan Venkatraman	Promoter/ Managing Director (MD) / Executive Director	01.01.2009	-
(ii)	Vishwamurthy Phalanetra	Whole-time Director & Chief Financial Officer (CFO)	01.01.2009	-
(iii)	Gopala Krishnan Seshadril	Independent Director	24.09.1997	-
(iv)	Uttam Prakash Agarwal	Independent Director	29.09.2023	-
(v)	Satish Chandra	Independent Director	29.09.2023	-
(vi)	Madan B. Gosavi	Independent Director	29.09.2023	-
(vii)	Namrata Sharma	Independent Director	29.09.2023	-
(viii)	Mandya Venkatachar Seshadri Vasan	Independent Director	25.09.2019	11.04.2023
(ix)	Bhavna Philipose	Independent Director	25.09.2020	11.04.2023
(x)	Parthasarathi Naik	Independent Director	28.09.2020	20.10.2022
(xi)	Shridhar Shankar Hegde	Whole-time director	01.01.2009	16.08.2020

Financial overview of CITL

Table no. 3 *Amt. in INR Crore*

Particulars	2019-20	2020-21	2021-22
Total Income	184.68	70.08	235.87
Total Expenses	152.45	66.17	195.39
Profit before Tax	14.38	3.92	40.48
Profit after Tax	12.20	1.23	27.68
Net worth	230.81	235.43	262.85
EPS	0.94	0.38	2.47

14. The specific charges levelled against the Noticees, the reply of the Noticees and my findings are as under:

14.1. Failure to furnish information and Non-Cooperation during the investigation on the part of Noticee No.1

14.1.1. Allegation –

i. The SCN in this regard stated that upon initiation of the detailed investigation in the instant matter, certain information/documents/records were sought from Noticee No.1 through,

several emails and telephone calls. However, it was observed that out of all the information/documents/records, that were sought from the Noticees, the following information, details, were either not furnished at all or were partially furnished by Noticee No.1:

(i) Minute of audit committee meetings for FYs 2019-20 & 2020-21.
(ii) Date and copy of order of sealing/seizing of office of Dubai based subsidiary.
(iii) Copy of purchase order of machineries
(iv) Proof of delivery of machineries purchased against the advances given to the Dubai based subsidiary and four Dubai based entities
(v) Extract of bank statement showing the payment made to overseas vendors.
(vi) Justified reasons for selling its Dubai based subsidiary to an entity owned by the Ex-employees of the said subsidiary.
(vii) Proof of travelling of company's technical team to Vendor's locations namely Bhavani Industries, J K Enterprises, Phonix Enterprises, J M Enterprises and Roshan Enterprises
(viii) Copy of legal notices sent to vendor to refund the advances
(ix) Proof of correspondences with the vendors to recover the advances
(x) Email id and contact number of the vendors
(xi) Copy of sale purchase agreement with the vendors namely Phonix Enterprises, J K Enterprises and Bhavani Industries
(xii) Supporting documents w.r.t. technical support provided by M/s Kuberra Enterprises for the Child Tether project namely proof of material purchased, sale/purchase invoices, delivery proof, etc.,
(xiii) Extract of bank statements showing the payment made to M/s Kuberaa Enterprises toward the purchases made in FY 2017-18

ii. In this regard, following points were also alleged in the NSE report:

a) Noticee No.1 provided contradictory statements as regards the writing-off of advances worth Rs.26.88 Crore, i.e. in its initial reply, Noticee No.1 stated that the money has been received back and in the subsequently reply, Noticee No.1 stated that the amount is yet to be received and some part has been written-off.
b) Noticee No.1 did not maintain any documents regarding the Child Tether project and receipt of the order from TVL Corporation. With regard to Child Tether project, Noticee No.1, on June 15, 2023, responded to NSE stating "we don't have much information other than what was shared earlier".
c) Subsequent to initiation of detailed investigation in the matter, vide summons dated December 22, 2023 and consequent follow up through emails and telephonic calls,

Noticee No.1 was advised to furnish information/documents/ records etc. with respect to capital advances to its Dubai based Subsidiary-Cerebra Middle East FZCO (Cerebra FZCO). However, Noticee No.1 failed to provide the same and kept giving various excuses and providing incomplete information/documents. After lapse of around 02 months, Noticee No.1 vide e-mail dated February 27, 2024 expressed its inability to provide documents/ information/details citing sealing of its Dubai based subsidiary's office. However, Noticee No.1 failed to furnish the date of order and copy of the order of sealing the said office.

iii. Further, since, Noticee No.1 did not provide the complete data which adversely affected the investigation in the matter, summonses dated October 12, 2023, November 21, 2023 and December 22, 2023 were issued directing it to furnish the pending information and details. However, Noticee No.1 vide various e-mails expressed its inability to access the information/ data and compile the complete information and therefore failed to provide the same. Thereafter, a final opportunity was granted to Noticee No.1 to submit the complete information, vide summons dated February 21, 2024, which Noticee No.1 failed to submit.

iv. Further, it was alleged that Noticee No.2, being the MD of Noticee No.1, was called for deposition two times during the investigation. However, despite giving assurance to provide the document at the earliest possible time, the Noticee No.1 failed to provide the requisite information/documents stating frivolous reasons viz. the employees/ team who had worked have left the company, trying their best to accumulate the information/documents and will submit the same as soon as possible, making theit effort to trace out the details, shared all the documents that were available, there are some confusions due to lot of people taking charge of the accounting pursuant to death of former Director & CFO, not available, etc.

v. Finally, it was alleged that Noticee No.1 had provided misleading information/documents/ records and frequently, changed its stand / reply on some queries w.r.t. trade receivables and outstanding advances from various entities, documents/ records/ information w.r.t. capital advance given to its Dubai based subsidiary etc.

vi. In view of the above, it was alleged that despite lapse of a substantial time period and number of opportunities, as the Noticee No.1 failed to submit complete data to in compliance with the Summonses dated October 12, November 21, 2023, December 22, 2023 and February 21, 2024 without any justifiable reasons, it has violated Section 11C (2) read with 11C (3) of SEBI Act.

14.1.2. Reply –

In respect of the aforesaid violation, Noticee No.1 contended that they always provided the information and fully co-operated with the exception of few delays due to searching and retrieving of the rather old data. It was further contended that Noticee No. 3 took over only in November 2022 and information was taking time to collate as they were requested over phone. Further, the copy of the order sealing/seizing of the Dubai based subsidiary was pasted on the Dubai office and they do not have a copy of the same.

14.1.3. Finding -

i. From the submission of Noticee No.1, I note that despite granting sufficient time, Noticee No.1 has provided only some of the documents and not all the documents as sought by SEBI as per Section 11C(2) and Section 11C(3) of SEBI Act. Further I note that as Noticee No.1 had not provided the complete information, it had not only hampered but also delayed the investigations, which was detrimental to the interest of the investors of the company in specific. In this regard, it is pertinent to mention here that it is the responsibility of every person from whom information is sought vide summons to fully co-operate with Investigating Authority (IA) and promptly produce all documents, records, information, etc., to the Investigating Authority as per Section 11C(2) and Section 11C(3) of SEBI Act. If persons are allowed to flout the summons issued to them during the course of the investigation, SEBI, as the watchdog of the securities market, will not be able to discharge its statutory obligations in protecting the interests of the investors and safeguarding the integrity of the securities market.

ii. In this context, it is also important to refer to the judgment of the Hon'ble SAT in the matter of **Mr. Jalaj Batra vs. SEBI** (Appeal no. 184 of 2010, date of decision dated December 06, 2010) wherein it observed: ".....*We have observed time and again that it is of utmost importance that market players like the appellant should fully cooperate with the investigations that are carried*

out by the Board, the watchdog of the securities market. If market players and intermediaries avoid appearing before the investigating officer or furnish the necessary information sought from them, the Board as a market regulator will not be able to carry out its statutory functions and duties of protecting the integrity of the securities market and the investigations would be grossly hampered. Non co-operation with the market regulator has to be viewed seriously. We do not know what else would have come to light if the appellant had appeared before the investigating officer or if he had furnished the requisite information that was sought from him."

iii. Thus, the above said facts clearly establish that Noticee No.1 has violated the provisions of Section 11C(2) and Section 11C(3) of SEBI Act for non-cooperation in providing the complete information/data for timely completion of the investigation with main objective of extending the investor protection in the securities market.

14.2. Entered into Related Party Transactions without requisite approvals (Rs.69.62 crore)

14.2.1. Allegation –

i. The investigation observed that Noticee No.1 had given capital advance amounting to Rs.69.62 crore to its Dubai based subsidiary-Cerebra FZCO during the FY 2019-20 as per annual statements for the same year. Being a subsidiary, Cerebra FZCO was a related party of Noticee No.1 and all related party transactions "RPT"s of any company, should be approved by the Audit Committee of the said Company, in terms of LODR Regulations. In this regard, it is observed that the term "related party transactions" has been specified under Section 2 (zc) of the LODR Regulations. The relevant provision reads as under;

2. (1) In these regulations, unless the context otherwise requires:—

(zc) "related party transaction" means a transaction involving a transfer of resources, services or obligations between:

(i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or

(ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;

regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:

Provided that the following shall not be a related party transaction:

(a) the issue of specified securities on a preferential basis, subject to compliance of the requirements under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;

(b) the following corporate actions by the listed entity which are uniformly applicable/offered to all shareholders in proportion to their shareholding:

i. payment of dividend;

ii. subdivision or consolidation of securities;

iii. issuance of securities by way of a rights issue or a bonus issue; and

iv. buy-back of securities.

(c) acceptance of fixed deposits by banks/Non-Banking Finance Companies at the terms uniformly applicable/offered to all shareholders/public, subject to disclosure of the same along with the disclosure of related party transactions every six months to the stock exchange(s), in the format as specified by the Board:

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s)

ii. From the above-mentioned provisions, it is observed that the approval of Audit committee and shareholders are required for all material RPTs. However, as per Noticee No.1's submission, this was not put up to the audit committee or BOD and hence their approval was not sought as these were considered as regular business transactions. Further, Noticee No.2 in his second deposition submitted that he was not sure of the same.

iii. Further, it was alleged that as per the extract of Ledger, Noticee No.1 had shown the amount of Rs.69.62 Crore as "Share application Money Pending allotment" to Cerebra FZCO in FY 2020-21 and as per the consolidated financial statements, its turnover was Rs.184.67 crore as per last audited financial statements in FY 2019-20. Accordingly, as the capital advance given by Noticee No.1 to its related party- subsidiary was more than 37% of its consolidated turnover, the capital advance given to the subsidiary was very much material RPT which require prior

approval of its audit committee as well as the approval of its shareholders as per the provisions of the LODR Regulations.

iv. In view of the above, since Noticee No.1 had not obtained the requisite approval on the said given advance to Cerebra FZCO, it was alleged that Noticee No.1 failed to comply with the Regulation 23(2), 23(4), 23(9), 34 and 48 of the LODR Regulations.

14.2.2. Reply –

With regards to the aforesaid allegation, it was submitted vide reply dated 23.10.2024 that the company decided to sell off Cerebra Middle east FZCO. The valuation and sale agreement of the said company was already provided. Thereafter, vide the additional submissions they also submitted that the capital advance provided to Cerebra ZFCO (Dubai) without obtaining requisite approvals from the audit committee and shareholders was a procedural lapse. However, the transaction was a legitimate business advance to a subsidiary, undertaken in good faith with no intent to contravene regulatory provisions. The omission to secure approvals was inadvertent and does not undermine the bona fides of the transaction. Therefore, the company be granted an opportunity to rectify this oversight through appropriate shareholder ratification or as per the guidance issued by SEBI.

14.2.3. Finding –

From the above submission, I note that the factual position of the charges made in the SCN on the aforesaid allegation is largely undisputed by the Noticees and also their contention is that the transaction was a legitimate business as the advance to a subsidiary was undertaken in good faith with no intent to contravene regulatory provisions and the omission to secure approvals was inadvertent and does not undermine the bona fides of the transaction. Further, it is also stated in the reply that the company may be granted an opportunity to rectify this oversight through appropriate shareholder ratification or as per the guidance issued by SEBI. Here as the Noticees have undisputedly admitted the said irregularities and ready to rectify the same, it establishes the violation of non-compliance of Regulation 23(2), 23(4), 23(9), 34 and 48 of the LODR Regulations.

14.3. Did not make provisions for bad and doubtful receivables and Inflation of trade receivables

14.3.1. Allegation –

The investigation observed that the statutory auditor had qualified its opinion in its report for the financial year 2022-23 stating that "*Current Assets includes outstanding dues recoverable from an overseas party amounting to Rs 100.28 Crore on account of sale consideration of Company's erstwhile subsidiary M/s Cerebra Middle East FZCO Dubai, vide sale agreement dated 17.03.2022. As per the terms of the said agreement, the payment period now stands expired and overdue for payment and no provision has been made in the books for bad and doubtful receivables and we are unable to comment on the recoverability of this and its impact on the consolidated financial results".* Accordingly, the company should have made the provision for the same as recoverability of the advances & the sale consideration was doubtful. However, investigation observed that the company (Noticee No.1) had not made provisions for bad and doubtful receivables as per Indian Accounting Standards (Ind AS)-109, and it was considered as misstatement/misreporting of the financials of Noticee No.1 for the financial year 2022-23. The observations on the said transaction are detailed below:

a. Outstanding receivable amounting to Rs.100.28 crore from an overseas party

i. It was observed that Noticee No.1 had entered into an agreement to sell the subsidiary, Cerebra FZCO owned by Mr. Asit Aahuja (CEO of Cerebra FZCO) and Mr. Trivikrama Rao (VP of Cerebra FZCO), to a Dubai based entity named M/s Technow Solutions FZE ("Technow") for a total amount of AED 72,54,176 (Apprx. Rs.15-16 crore) vide sale agreement dated March 17, 2022. As per the said agreement, the purchaser i.e. Technow, shall remit the amount within a period of 90 days from the date of the agreement and in case it does not pay to seller i.e. Noticee No.1 the proceeds in 90 days, this agreement shall stand cancelled automatically.

ii. In the said agreement, the valuation of the aforesaid subsidiary was done after excluding the e-waste plant and machinery purchased by the said subsidiary against the capital advances given by Noticee No.1 to its subsidiary and other overseas entities (as detailed below) to procure the plant and machinery to set up the e-waste facility at

Dubai.

iii. As per the said agreement, it was agreed that the extant COO of the subsidiary had already initiated the process of sale of the machinery and once the same is concluded, the proceeds received on account of the same shall be fully transferred (after deducting any actual bank charges or other expenses to be documented for effecting the sale) to the bank account of Noticee No.1 within 7 days.

iv. However, as per annual statements for the FY 2021-22, the amount receivable towards sale of Dubai subsidiary was shown to be Rs.15 crores as "*Other current assets*".

v. Further, the amount receivable towards the advances given to the subsidiary and other overseas entities on behalf of the subsidiary was shown to be Rs.85.28 crore as "*Other Non-Current Assets*" which are detailed in the subsequent paras.

b. Capital advances to Cerebra Middle East FZCO and 4 other overseas entities (Rs.80.28 crore)

i. The break-up of capital advances of Rs.80.28 crore out of total advances of Rs.85.28 crore outstanding as on March 31, 2022, as per the financial statements of Noticee No.1 for the FY 2021-22, is given below:

Table -4

Particulars	**Amounts (Rs in Crore)**
Capital Advances:	
Cerebra Middle East FZCO	69.62
Brooks Trading Co. LLC (Brooks)	4.37
Endowments General Trading LLC (Endowments)	2.06
SNB Middle East FZCO (SNB)	2.05
Triple A Global FZCO (Triple)	2.18
Total	**80.28**

ii. In respect of the above, the statutory auditor had qualified its opinion in its report for the financial year 2022-23 stating that as per the terms of the said agreement, the payment period now stands expired and overdue for payment and no provision has been made in the books for bad and doubtful receivables and they are unable to comment on the recoverability of this and its impact on the consolidated financial results.

iii. In this regard, during the investigation, following was observed with respect to submission of the company:

a) The company submitted that they were in continuous touch with Technow for the completing the sales transactions and Cerebra has agreed to extend the timeline till March 31, 2024.

b) when the company was asked to provide the reasons for selling of the subsidiary to Technow (owned by ex-employees of the subsidiary) and explain the due diligences/procedures followed before the executing the sale deal, the company replied stating that "… E-Waste Recycling only was the main reason for us to sell the WOS. ….". Thereafter, the company submitted a letter received from Technow and as per the said letter, Technow would transfer the proceeds by March 2023 or by June 2023.

c) The Company further submitted that as the amounts were expected to be realized by March 2023 or by June 2023, they had not made any provisions for the same. But, till the end of December 2023, the company did not receive the amount as per the commitment made by the purchaser i.e. Technow.

d) Further, the MD of the company, in his deposition held on March 04, 2024, inter-alia submitted that they did not think any due diligence was required and they are the people who are running the IT business of the subsidiary in Dubai. From the submission of MD, the said sale agreement was entered without doing any due diligence with regard to the purchaser and their creditworthiness. Further, the company had not provided any document in support of their search for the suitable purchaser (other than Technow) for its subsidiary.

iv. Taking into consideration of the above facts, investigation noted that the proceeds towards sale of the subsidiary and sale of the e-waste plant and machinery were not received by Cerebra till March 2024. As per the said sale agreement with Technow, the proceeds towards sale of the subsidiary should have been received on or before June 16, 2022 (within 90 days of the date of the agreement). However, despite the lapse of substantial amount of time (more than one and half years), the sale proceeds have not been received. Further, the company has also not made any provision with respect to the same.

v. Accordingly, investigation concluded that the reasons provided by the company for non-

provisioning of the receivables/ sale consideration totalling to Rs.100.28 crore was not justified as the sales agreement had no legal validity after June 16, 2022, the receivables were outstanding since long time and the agreement with Technow, which was owned by the ex-employees of the company's subsidiary Cerebra FZCO, was entered into by the company without any due diligence on the creditworthiness of Technow and also that the Statutory Auditor of the company was continuously emphasizing in/ qualifying its audit report stating that no provision has been made in the books for bad and doubtful receivables.

vi. Hence, it was alleged that the company failed to make provision for the bad and doubtful receivables in accordance with the applicable Indian Accounting Standards (Ind AS)-109, which has led to misstatement/misreporting of the financials of the company for the financial year 2022-23.

14.3.2. Reply-

In response to the said allegation of not making provisions for bad and doubtful debts, it was submitted vide reply dated 23.10.2024 that since they decided to sell Cerebra FZCO (Dubai), they had executed the sale agreement and are yet to receive the proceeds, they had not made any provisions but was reported in the respective financials. Thereafter, vide the additional submissions, they submitted that the said sale of Cerebra FZCO was conducted with due diligence and in the best interests of the company and its shareholders. Further, the buyers have an established relationship with the subsidiary, having previously held key leadership roles such as Vice President and CEO of Cerebra FZCO which significantly mitigated the risk of recoverability concerns. Furthermore, the deal terms exceeded the anticipated market value for the subsidiary, which was operating in a financially negative position, and the agreed consideration enabled recovery of outstanding dues as well as included an additional Rs.15 crores, representing a favourable transaction from the perspective of the company and its shareholders. They also categorically denied that there was any misstatement or misreporting in the company's financials for FY 2022-2023.

14.3.3. Finding -

i. As regards the allegation of not making provisions for bad and doubtful debts, I note that Noticee No.1 could not recover a total of Rs.100.28 Crores in time from its subsidiaries and other foreign entities, which had to be provisioned as bad and doubtful receivables in accordance with the applicable Indian Accounting Standards (Ind AS)-109. Firstly, I note that, as regards the amount of Rs.85.28 crores which showed as outstanding in the financial statements of Noticee No. 1 for FY 2021-23, the statutory auditor has also provided an opinion in the financial report of Noticee No.1 for FY 2022-23, while Noticee No.1 has not provided any submission in this regard. Therefore, in the absence of any submission of the said Noticee, I am inclined to conclude that Noticee No.1 has accepted the said charges against it. Next, as regards amount receivable towards sale of Dubai subsidiary, I note that since the sale agreement as a contract is a financial asset that is within the scope of IND AS 109 in its entirety, the amount specified in the contract should be accounted for as a whole. In this regard, I note that the objective of IND AS 109 is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

ii. Therefore, I note that Noticee No. 1, should have shown not only Rs.15 Crore as the amount receivable towards sale of Dubai subsidiary in its annual statements for the FY 2021-22 but should have also shown the remaining Rs.85.28 Crores. In this regard, I do not accept the submission of Noticee No.1 that the buyers have an established relationship with the subsidiary, having previously held key leadership roles such as Vice President and CEO of Cerebra FZCO which significantly mitigated the risk of recoverability concerns and the company acted prudently and transparently, and the allegations regarding bad or doubtful receivables are baseless and unwarranted. Accordingly, I find that Noticee No. 1 has failed to make provision for the bad and doubtful receivables in accordance with the applicable Indian Accounting Standards (Ind AS)-109, which has led to misstatement/misreporting of the financials of Noticee No.1 for the financial year 2022-23.

14.4. Inflation of trade receivables by Rs.17.86 crore

14.4.1. Allegation –

i. Investigation observed that the company had written-off the trade receivables amounting to Rs.17.86 crore, relating to RFID Project with M/s Kuberaa Enterprises (Kuberaa) as it went bankrupt in the FY 2019-20.

ii. However, the company failed to furnish any supporting documents with regard to the said project like copy of agreement between the company & US based company, agreement between the company & the entities to whom the final child tether products, had been sold, the copy of invoices, purchase order, delivery proof etc. in support of the sales etc.

iii. The company had submitted that Kuberaa had given technical support for RFID i.e. Child Tether Project and also bought refurbished laptops from Cerebra recently. In this connection, though the Company submitted address of the Kuberaa but failed to provide its owner/proprietor's name.

iv. However, contrary to the above submission, the company, vide email dated May 11, 2023, had informed NSE that they had purchased materials from Kuberaa amounting to Rs.17.85 crore in FY 2017-18 for the Child Tether project. In this regard, the Kuberaa inter-alia submitted that it had not sold materials to Cerebra in FY 2017-18. In this regard, company submitted that "*the Kuberaa firm, to whom Cerebra were dealing with in 2007 was totally different from this Kuberaa with whom the company is dealing now. However, a lot of information is not available since the people concerned have quit long back and the CFO who had knowledge of most of this has died"*.

v. In this regard, investigation observed from the certificate of firm registration issued by Government of Tamilnadu, that Kuberaa Enterprises has been registered since December 28, 2017 and is involved in the business of trading of agricultural raw materials etc. In this regard, when asked how a non-company could have purchased the material or taken technical support from an entity in 2007, the company submitted a vague reply "*it could be two entities with the same name not sure how this is going to effect the*

services rendered to the company". However, investigation observed that the address of Kuberaa, which provided technical support for Child Tether project is the same as the address as per certificate issued by the Government of Tamilnadu, which indicates that Kuberaa involved in Child Tether project and Kuberaa involved in purchase of refurbished laptops are one and the same. However, investigation noted that the company could not have taken any technical services and could not have purchased any material for the so called child tether project from M/s Kuberaa as the entity was not in existence in 2007.

vi. Thus, the investigation inferred that the company had made contrary submissions that Child Tether project was executed in the FY 2007-08 and it had purchased materials for the Child Tether project from Kuberaa in the FY 2017-18.

vii. In view of the above, it was alleged that the company neither purchased any material for the said Child Tether project nor manufactured and sold any child tether products to any entity and that all the accounting entries related to Child Tether project were mere book entries to inflate the sale & purchase figure of the company. Further, the entire trade receivables amounting to Rs.17.86 crore, shown by the company for the child tether project, in the FY 2019-20, were not correct, which led to misrepresentation/misstatement of the financials of the company for the FY 2019-20.

14.4.2. Reply –

In this regard, it was submitted by Noticee No.1 that all the receivable are of the proper sales transactions. Further, due to GST, liabilities were discharged and reported, hence there could be no inflation of the trade receivables. Next, vide their additional submissions, they have stated that, the reference to Kubera in the SCN demonstrates a misunderstanding or misrepresentation of facts. They have also submitted that the transaction involving Kubera, amounting to Rs.17.86 crore, is unrelated to the RFID project and pertains to a completely different matter. Any attempt to conflate the two transactions lacks merit and serves only to mislead. Further, the company has not been granted an opportunity for cross-examination regarding the Kubera dealings, which contravenes principles of natural justice. It is emphasized that the amounts reported as trade receivables in FY 2019—2020 were legitimate and reflective of the company's efforts to recover the dues at that time. The eventual bankruptcy of the US-based client necessitated a reclassification of the receivables, which the

company has been prepared to undertake in subsequent reporting periods. However, at the time in question, the financial statements were accurate and free of any misstatement. In conclusion, Noticee No. 1 stated that the allegation of inflating trade receivables is unfounded and unsupported by substantive evidence. Therefore, the company acted transparently and in accordance with accounting standards and regulatory norms and these allegations should, be dismissed.

14.4.3. Finding -

As regards the allegation of inflation of trade receivables by Rs.17.86 crore, firstly, I note that, Noticee No. 1 has stated that it was not granted an opportunity for cross-examination regarding the Kuberaa dealings, which contravenes principles of natural justice. I do not agree with this statement of Noticee No.1 because it has never sought for an opportunity of cross-examination from the undersigned during the proceeding. Further, Noticee No.1 has not submitted any documents in this regard to show that it had sought for cross-examination from the undersigned either. Therefore, this appears to be a mis-statement on the part of the Noticee. Coming to the actual charge, I note that, Noticee No. 1 submitted that all the receivables are of the proper sales transactions and due to GST, liabilities were discharged and reported, hence inflation of trade receivables does not arise and as long as the entries for the inflated sales and purchases are entered correctly, they may be GST compliant. In this regard, I note that even if transactions are GST compliant that does not mean they have not manipulated and further it certainly does not mean that the transactions are in compliance with the relevant SEBI rules and regulations. Therefore, I do not accept these submissions of Noticee No.1. Next, I note that no documents have been submitted by Noticee No. 1 in support of its statement that the transaction involving Kuberaa, amounting to Rs.17.86 crore, is unrelated to the RFID project and pertains to a completely different matter, or the amounts reported as trade receivables in FY 2019 - 2020 were legitimate. As a result, I am not inclined to accept the abovementioned statements of the Noticee. Thereafter, I note that despite the allegation that Noticee No.1 neither purchased any material for the said Child Tether project nor manufactured and sold any child tether products to any entity and that all the accounting entries related to Child Tether project were mere book entries to inflate the sale & purchase figure, Noticee No.1 has not submitted any documents to contradict the same. In view of the above, I do not find merit in the submissions of Noticee No.1

stating that the company acted transparently and in accordance with accounting standards and regulatory norms. Accordingly, I find that the entire trade receivables amounting to Rs.17.86 crore, shown by Noticee No.1 for the child tether project, in the FY 2019-20, was incorrect, which resulted in misrepresentation/misstatement of the financials of Noticee No.1 for the FY 2019-20.

14.5. Inadequate disclosure of sale agreements with Technow

14.5.1. Allegation –

i. The SCN in this regard stated that Noticee No.1 had submitted an intimation under Regulation 30 of LODR Regulations on January 27, 2022, stating that the Board had decided to disinvest in its subsidiary Cerebra FZCO, subject to the procedural compliances. Further, on March 18, 2022, Noticee No.1 had submitted another intimation under Regulation 30 of LODR Regulations stating that Noticee No.1 has executed a Share Transfer Agreement dated March 17, 2022, with a potential purchaser from Dubai for transfer of its entire shareholding of 86.5% in the subsidiary company. In this regard, Noticee No.1 was required to disclose the details of the said sale agreement as stipulated under Regulation 30 of the LODR Regulations, read with SEBI Circular No. CIR/CFD/CMD/4/2015 dated September 09, 2015.

ii. As per para A.1.1.4 of Annexure 1 to SEBI Circular No. CIR/CFD/CMD/4/2015 dated September 09, 2015, for sale or disposal of unit (s) or division(s) or subsidiary of the listed entity, details which the listed entity needs to disclose for the events that are deemed to be material, which includes the following*:*

a) The amount and percentage of the turnover or revenue or income and net worth contributed by such unit or division of the listed entity during the last financial year.
b) Date on which the agreement for sale has been entered into.
c) The expected date of completion of sale/disposal.
d) Consideration received from such sale/disposal.
e) Brief details of buyers and whether any of the buyers belong to the promoter / promoter group / group companies. If yes, details thereof.
f) Whether the transaction would fall within related party transactions? If yes, whether the same is done at "arm's length";
g) *Additionally, in case of a slump sale, indicative disclosures provided for amalgamation/merger, shall be disclosed by the listed entity with respect to such slump sale.*

iii. However, as Noticee No.1 had not made any disclosures, as stipulated in the aforesaid circular, regarding the sale of its subsidiary other than the date of share transfer agreement, it was alleged that Noticee No.1 was in non-compliance of the provision of Regulation 30 of the LODR Regulations, read with SEBI Circular No. CIR/CFD/CMD/4/2015 dated September 09, 2015.

14.5.2. Reply –

In respect of the said allegation, the Noticee No.1 submitted the copy of the extension letter signed with the party until March 2025. Further, vide the additional submissions, it was submitted that while the disclosure was made in good faith, certain technical aspects were inadvertently omitted by the Company Secretary, who was responsible for ensuring compliance with the prescribed format and content requirements of the regulation. This omission, however, was unintentional and devoid of any mala fide intent. It was also submitted that the company seeks to rectify the defect promptly and requested that this oversight be viewed leniently, considering the absence of any mala fide intent and the genuine willingness to comply with SEBI's instructions to rectify the matter.

14.5.3. Finding –

With regard to the above allegation, I note that the Noticee No.1 has admitted to the violation by stating that the omission, was unintentional, devoid of any mala fide intent and also the company seeks to rectify the defect. Therefore, I find that Noticee No. 1 has violated the provisions of Regulation 30 of the LODR Regulations, read with SEBI Circular No. CIR/CFD/CMD/4/2015 dated September 09, 2015.

14.6. Misappropriation/ misutilisation /diversion/ siphoning off the funds amounting to Rs.26.88 crore in the guise of the advances to vendors

14.6.1. Allegation –

i. In respect of the above, investigation observed the following:

a) Noticee No.1 had shown an advance to suppliers amounting to Rs.26.88 crore in the FY 2021-22. The details of the entities to whom advances worth of Rs.1 crore or more were given in FY 2021-22, are as below:

Table No.-5

Name of Party	Amount (Rs in crore)
Bhavani Industries	1.52
J K Enterprises	7.76
Phonix Enterprises	1.53
J M Enterprises	3.09
Roshan Enterprises	11.35

b) However, it was observed from the half yearly fillings for the period ended September 30, 2022 that Noticee No.1 had written-off advances amounting to Rs.14.44 crore which was given to J M Enterprises (Rs.3.09 crore) and Roshan Enterprises (Rs.11.35 crore).

c) In this regard, during the investigation Noticee No.1 submitted that it had placed order for purchase and installation of certain plant and machinery during 2020-21 and paid an advance of Rs.25.24 crore to the above mentioned 5 parties, as per required specifications and agreed terms. However, later during 2020-21 and 2021-22, as the machineries were supplied in bits and parts by the vendors with delay and after verification by Noticee No.1's technical team, it was found that machineries and parts supplied were not as per the agreed specifications and found not usable. Noticee No.1 cancelled the said purchase orders and requested for refund of aforesaid advances given to vendors. However, when the vendors did not respond to the claims and Noticee No.1 found that their statutory registrations like Goods and service Tax were cancelled, Noticee No.1 started recovery actions. However, due to uncertainty of recovery, Noticee No.1 decided to write off the advance amount in September 2022 quarter and got approval from the Board at its meeting held on November 14, 2022. Noticee No.1 further submitted that in the event of recovery, it shall treat the amount as income in the year of receipt.

d) Further, in respect of the above, during the investigation that Noticee No.1 and 2 submitted inconsistent replies and mislead SEBI as Noticee No.2 during his deposition and Noticee No.1 vide its letter dated January 31, 2024 submitted that the above-mentioned money is not an advance but some receivables, however, vide letter dated February 01, 2024, Noticee No.1 submitted that these are advances made towards supply of plant and machinery and are not receivables.

e) Further, they also did not provide the details of the beneficial owner of the two entities namely J M Enterprises & Roshan Enterprises but submitted the bank account statement in support of advance to J. M. Enterprise and Roshan Enterprises respectively of Rs.3.09 crore (through Axis & Canara Bank) and Rs.11.34 crore (through Canara Bank). After that, it was observed by the investigation that Noticee No.1 also submitted the sale purchase agreements with these two entities, wherein certain anomalies have been observed viz. the name of the beneficial owners and the name of the signatory of the said entities have not been mentioned. Thus, Noticee No.1 and Noticee No.2 were observed as making contradictory submissions regarding these advances being receivables.

f) However, contrary to the above submission, it was observed from the Canara Bank statements of Noticee No.1 that it had made payments amounting to Rs.3.34 crore to J. M. Enterprise in several trenches between September-December, 2021 and Rs.11.76 crore to Roshan Enterprises in several trenches between July 2021 and January 2022. Accordingly, there were differences in the amount shown as advance to these two entities (Rs.3.09 crore & Rs.11.34 crores) in books of account of Noticee No.1 and actual payment (Rs.3.34 crore & Rs.11.76 crore) made to them as per bank statements. Further, Noticee No.1 has submitted that it has transferred Rs 10 Lakhs in two tranches of amount of Rs.5 Lakh each on June 06 & July 12, 2021 to M/s J. M. Enterprise. However, on the analysis of bank statements of Axis bank of Noticee No.1, it is observed that there were no such transactions of the said amount in favour of M/s J. M. Enterprise, indicating inconsistency between Noticee No.1's submissions and the

transactions shown in bank statements. Thus, contradictory submissions regarding advances being receivables were observed consistently.

g) Investigation observed that Noticee No.1 provided the address and proprietor's name of all the five entities to whom funds were transferred as advance, while, once again failing to provide their contact number and email id. Further, upon analysing the details of the counter parties and the Know Your Client (KYC) of the said five entities obtained from the banks, the following mismatches in the names of the bank account holder entity and its owner were observed in case of accounts of J M Enterprises & Roshan Enterprises:

Table No-6

Bank Name	**Bank account No.**	**Entity's name as per company's submission & book of account**	**Owner as per company's submission**	**Entity's name as per KYC**	**Owner as per KYC**	**Nature of business activity as per KYC**
IndusInd Bank	25898009090	J M Enterprises	Mr. Javed Mebubhai Belim	Kaushal Corporation	Mr. Kaushal Deepak Suchak	Service
Bank of India	258980090901	Roshan Enterprises	Mr. Rohit Sakharam Jogdankar	Surbhi Corporation	Mr. Hasmukh Bhai KKhatri	Cheque Discount & RTGS Commission
IndusInd Bank	257698292729	Phonix Enterprises	Mr. Nayak SanjayBhai	Phonix Enterprises	Mr. Nayak Sanjay Bhai	Wholesaler
HDFC	274320110001358	J K Enterprises	Mr. Kothiya PravinBhai NathBhai	J K Enterprises	Mr. Jaykishan Kirtikar Kharidiya	Agricultural commodities
IndusInd Bank	259624528814	Bhavani Industries	Mr. Vikaramsinh Baldevbhai Solanki	Bhavani Industries	Mr. Vikaramsinh Baldevbhai Solanki	Wholesale

h) The summons was issued to the owners of all the said 5 entities for their deposition at the available address as per bank KYC documents. However, the summons issued to three entities namely Phonix Enterprises, J K Enterprises and Bhavani Industries returned undelivered stating reasons that "*addressee left without instruction*" and "*not such person in the address*" respectively. Thereafter, the efforts made to call on the mobile number of these three entities as available in Bank KYC documents also failed as the mobile numbers were either switched off or temporarily not in service.

i) However, the statements of the owners of other two entities namely Kaushal Corporation and Surbhi Corporation was recorded**.** Mr. Deepak Bhai Suchak, father of Mr. Kaushal Deepak Suchak, Proprietor of M/s Kaushal Corporation and Mr. Hasmukh Bhai Khatri, owner of M/s Surbhi Corporation appeared for deposition and denied knowing Noticee No. 1 or having any dealings with it. They admitted receiving the said money as they were in the business of commission agent, (i.e. giving cash in return for the online transfer of money for commission and vice versa) from Mr. Mustkin Zunzuniya and Mr. Altaf Menon. Further, they also stated that the said money had been returned in the form of cash to Mr. Mustkin Zunzuniya and Mr. Altaf Menon. In this regard, they provided the mobile numbers of Mr. Mustkin Zunzuniya and Mr. Altaf Menon. Further, Mr. Mustakin Zunzuniya was contacted on the given mobile numbers (812XXXX641 & 886XXXX111) and was enquired about the said bank transactions, which he confirmed.

j) It appeared from the above statements and bank KYC documents that Noticee No.1 had given advances to such entities which were not in the business of plant and machinery, under the guise of supply of the plant & machinery, but actually the funds were transferred to these entities for some other purposes.

k) In this regard, Noticee No.1 vide email dated February 17, 2024, submitted that it was all handled by one Habibani Bhai (mobile No. 814XXXX047), who arranged for all the companies and machinery, which was fraudulent. Subsequently, when Noticee No.1 was asked to provide First Information Report (FIR) filed in respect of the fraud, it submitted that it was only an assumption so it had not filed any FIR against anyone in this regard. When mobile No. 81XXXXX047 was called, it was answered by one Mr. Jitendra Bhai who had informed that he resides at Navpada, Arwali, Gujarat and denied knowing Mr. Habibani.

l) As initially Noticee No.1 submitted that machineries were supplied in bits and parts by the vendors with delay and after verification Noticee No.1's technical team found the

machineries and parts supplied were not as per the agreed specifications and not usable, Noticee No.1 was asked to provide the proof of supply/delivery, copy of purchase order & invoices etc. of the machinery supplied by the vendors. In this regard, Noticee No.1 submitted that these were not supplied but during inspection at parties' location these were found incorrect and not suitable. Hence, a purchase order was not issued and there was no invoice. Thereafter, Noticee No.1 was asked to provide the proof like travel tickets i.e. railway/flight tickets, hotel stay bills, local travel bills etc. for visit of technical team to the parties' location. Noticee No.1 failed to provide any supportive documents in this regard.

m) Noticee No.1 was asked about its effort to recover the amount from these entities. Initially, Noticee No.1 submitted that continuous follow up was made with the said five entities to get the refund. However, when asked about copy of correspondences then they failed to furnish any proof of documents and submitted that all discussions were internal and general.

n) Noticee No.1 was asked to provide valid purchase agreements/ contracts in respect of all the five entities i.e. J M Enterprise, Roshan Enterprises, Bhavani Industries, J K Enterprises, and Phonix Enterprises. In this regard, Noticee No.1 submitted that it is in e-waste and refurbishment material supply and management industry where one has to deal with many unorganised sectors. The industry is not yet established into fully governed / organised way of working. Here most of the transactions are happening through discussion and accordingly material purchases and sales will affect. Hence, Noticee No.1 may not have the Purchase Order / agreement in many cases. However, all the transactions where the payment / receipt involved are all done only through the proper commercial operation. Investigation found this reply of Noticee No.1 as contradictory considering that earlier Noticee No.1 submitted the sale/ purchase agreements with J M Enterprise and Roshan Enterprises though there were certain anomalies in the said agreements. Noticee No.1 had given advances to five entities almost at the same time through a person named Mr. Habibani Bhai but had submitted copies of sale agreements with respect to only two entities.

o) In this regard, during the deposition of Noticee No.2, he had admitted to not conducting any due diligence while providing approx. Rs.27 crores to said five entities. He had further submitted that he was not aware that the amount has been transferred to Kaushal Enterprises and Surbhi Corporation in instead of J M Enterprise and Roshan Enterprise. Further he committed to provide documents/information i.e. copy of the legal notice along with courier receipt, proof of delivery, phone number of all the five entities' owners, which he failed to provide. Further, he also failed to provide date of inspection of machineries at parties' location, wherein these were found incorrect and not suitable along with the names of the persons, who had visited the party's location, location of the visit & travelling details like tickets, hotel bills, etc.

p) In this regard, the investigation observed from the bank statements that Noticee No.1 has provided advances to the above mentioned five entities in the Financial Year 2021-22 but had written off advances to J M Enterprises & Roshan Enterprises only and advances to other three entities were still showing as advances in its financial statements for the FY 2022-23. These inconsistent accounting treatment of the advances by Noticee No.1 could not be justified by its submissions.

ii. In view of the above observation, it was alleged that Noticee No.1 has misappropriated/ misutilised /diverted/ siphoned off the entire amount of the funds of Rs. 26.88 crore in the guise of the advances to vendors for supply of plant and machinery.

14.6.2. Reply –

i. As regards the allegation of misappropriation/ misutilization/ diversion/ siphoning off the funds amounting to Rs.26.88 crore in the guise of the advances to vendors, it was submitted that all payments in this regard were effected through bank transfer/ cheques, therefore the question of misutilisation/ misappropriation/ diversion/ siphoning off cannot be applicable and these decisions were made by the management in the best interest with the available resources. Thereafter, vide the additional submissions, it was stated that the advances in question were given to JM Enterprise and Roshan Enterprise for the purchase of machinery. Upon verification, the machinery supplied by these entities was found to be inconsistent with the

required specifications, resulting in the cancellation of the purchase orders. Consequently, the company was compelled to write off the advances to comply with regulatory requirements and avoid further remarks from statutory auditors concerning doubtful receivables. The decision to write off these amounts was made in the interest of maintaining transparency in the financial statements and not indicative of any misappropriation or diversion of funds. They further submitted that it is pertinent to note that the transactions under scrutiny were executed during the tenure of the company's previous CFO and his team. Following the unfortunate demise of the CFO on August 16, 2020, tracking the complete records, documentation, and relevant proofs related to these transactions has proven to be a significant challenge. The absence of such records hampers the company's ability to file a criminal complaint against the involved vendors. However, civil recovery actions or other appropriate recovery measures, as advised by a reputed and learned advocate, will be diligently pursued by the company.

ii. Furthermore, in this regard, it was submitted that the owners of JM Enterprise and Roshan Enterprise have been questioned regarding these transactions. While their statements have been recorded, the company was not provided an opportunity to cross-examine these individuals. The lack of cross-examination constitutes a significant procedural lapse and violates the principles of natural justice. The company reserves its right to challenge these allegations, and no adverse inference should be drawn solely on the basis of the recorded statements. As directed by SEBI, the company is prepared to initiate legal recovery actions against JM Enterprise and Roshan Enterprise under the guidance of a reputed legal counsel. These actions will be pursued in good faith to protect the company's financial interests. However, it is reiterated that treating the advances as doubtful receivables and subsequently writing them off does not constitute misappropriation or diversion of funds under any circumstances. The company remains committed to compliance with all regulatory directives and will take appropriate corrective actions as advised by SEBI.

14.6.3. Finding -

i. As regards the abovementioned allegation, firstly, Noticee No.1 has stated that it was not provided an opportunity to cross examine the owners of JM Enterprises and Roshan Enterprise. In this regard, I note that as per available record, no statements were recorded of

JM Enterprise and Roshan Enterprise as claimed. Further, I also note that the Noticee did not seek or request for an opportunity to cross examine the above mentioned entities at any point during the relevant proceeding with the undersigned and the Noticee has also not submitted any copy of its request in this regard. Next, I note that, in respect of the purchase of plant and machinery, no bills, invoices, documents etc. were provided and also made inconsistent statements in this regard. This apart, I also note that the summons issued to three entities namely Phonix Enterprises, J K Enterprises and Bhavani Industries returned undelivered stating reasons that "*addressee left without instruction*" and "*not such person in the address*", and the owners of other two entities namely Kaushal Corporation and Surbhi Corporation during their deposition stated that they did not know Noticee No. 1 or had dealings with it, however, they admitted receiving the said money from Mr. Mustkin Zunzuniya and Mr. Altaf Menon as they were in the business of commission agent (i.e. giving cash in return for the online transfer of money for commission and vice versa) and also admitted to returning the said money to Mr. Mustkin Zunzuniya and Mr. Altaf Menon in the form of cash, which has not been denied by Noticee No.1. Therefore, it can be concluded that these transactions were mere book entries as these companies did not exist in the first place and money was sent to them for purposes other than purchase of plant and machinery. This can be further justified with the fact that Noticee No. 1 has not taken much efforts to recover the said loan amount and has easily agreed to write it off. Thereafter, I note that, Noticee No. 1 has not been able to prove the authenticity of the abovementioned transactions due to the lack of documents in support of the same. After that, I note that, Noticee No.1 has admitted to transactions relating to Rs.26.88 Crores being faulty and problematic by stating that the company will take appropriate corrective actions as advised by SEBI. In view of the above, I do not find merit in the submissions made by Noticee No.1 in this regard and find that it has misappropriated/ misutilised /diverted/ siphoned off the entire amount of the funds of Rs. 26.88 crore in the guise of the advances to vendors for supply of plant and machinery.

14.7. Inflation of sale/purchase transactions of Noticee No.1

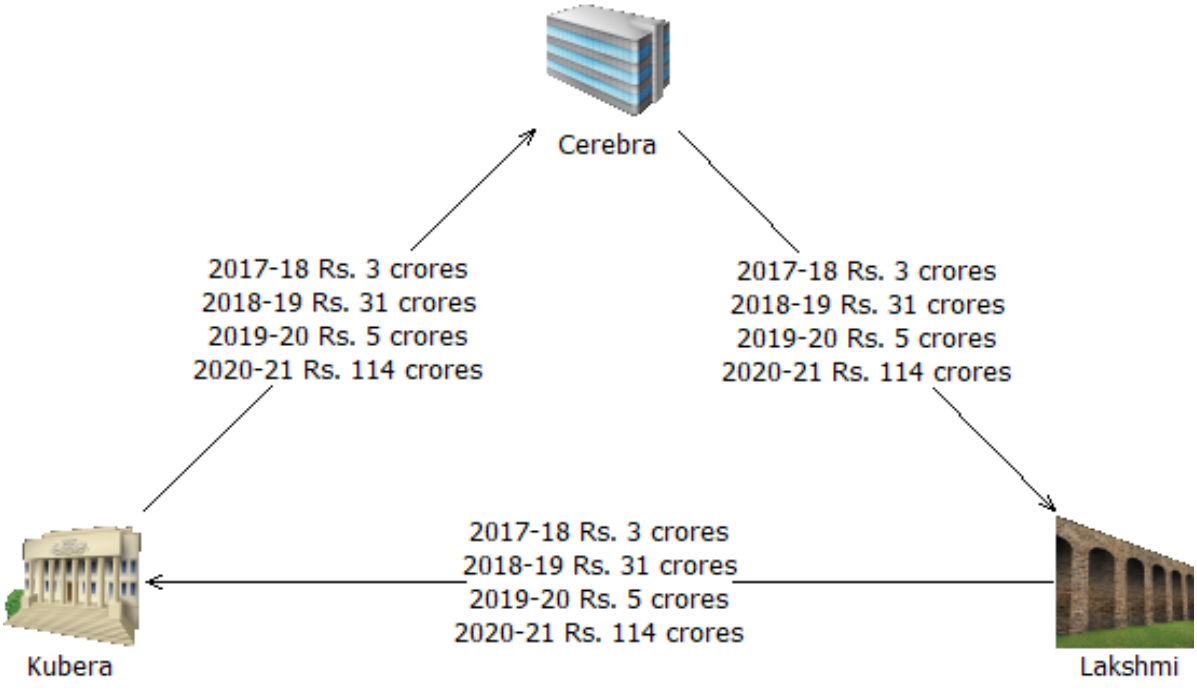
14.7.1. Allegation –

i. In respect of the above, investigation observed from the bank statements of Kuberaa that it had received money amounting to Rs.153 crore from one entity namely M/s Lakshmi Metals during FYs 2017-18 to 2020-21, which was in turn transferred on the same day or very next day to Noticee No.1. It was also observed from the bank statement of Lakshmi Metals that it had received money only from Noticee No.1 during FYs 2017-18 to 2020-21 i.e. there were no other banking transactions except receiving money from Noticee No.1 and transferring the same to Kuberra and the bank account was shown as non-maintainable in FY 2021-22 & 2022-23.

ii. These fund transfers appeared to be circular in nature and were executed by Noticee No.1, Kuberaa and Lakshmi Metals to settle the fictitious transactions of the sales and purchase executed among themselves. The summary and pictorial representation of the banking transactions among Noticee No.1, M/s Lakshmi Metals and M/s Kuberaa Enterprises during the FYs 2017-18 and 2020-21, are as below:

FY	Cerebra to Lakshmi	Lakshmi to Kuberaa	Kubera to Cerebra
2017-18	3 crores	3 crores	3 crores
2018-19	31 crores	31 crores	31 crores
2019-20	5 crores	5 crores	5 crores
2020-21	114 crores	114 crores	114 crores
Total	**153 crores**	**153 crores**	**153 crores**

Banking Transactions:

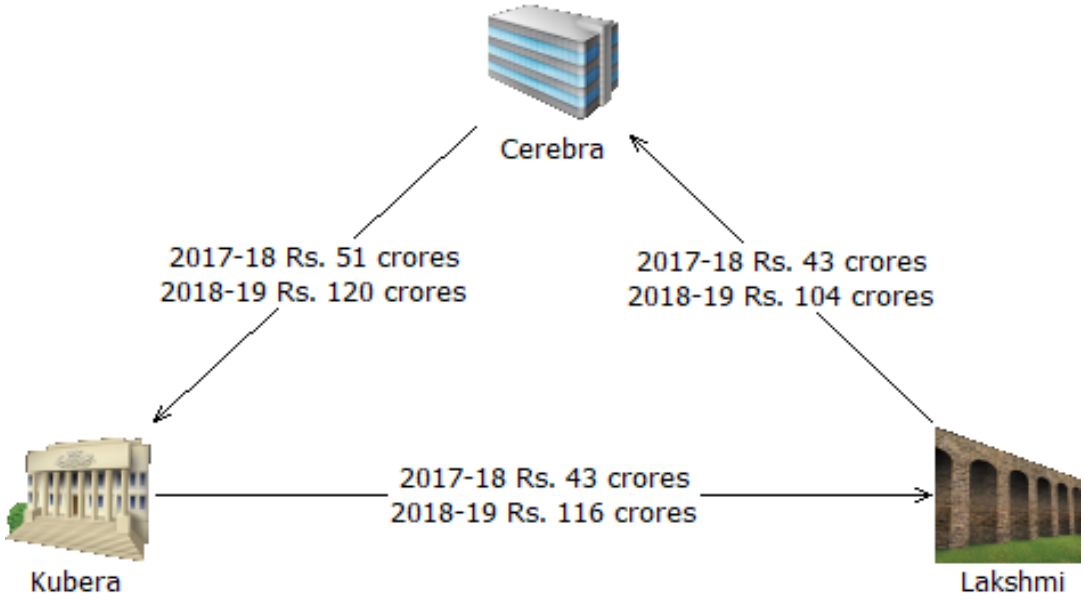


iii. Further, it was observed that the tax auditor of both the firms namely M/s Kuberaa Enterprises and M/s Lakshmi Metals, was same i.e. Mr. T.S Rajaraman, Chartered Accountant who had submitted the Income-Tax Returns (ITR) along with the financial statements of the said entities for the FYs 2017-18, 2018-19, 2019-20 & 2020-21. On the analysis of the same and the submissions of Kuberaa and Noticee No.1, it was observed that Noticee No.1, Kuberaa and Lakshmi Metals were involved in circular sale / purchase transactions of E-waste (Computers/ Laptops) among themselves during the FYs 2017-18 and 2018-19. Another summary and pictorial representation of circular sales/ purchases transactions among these three entities in the year 2017 – 18 are as follows:

Rs. in crore *Table No.-8*

FYs	Cerebra to Kubera	Kubera to Lakshmi	Lakshmi to Cerebra
2017-18	51 crore	43 crore	43 crore
2018-19	120 crore	116 crore	104 crore

Sales/ purchase transactions:



iv. From the financials of the Kuberaa and Lakshmi Metals, it was further seen that these firms had not done any value additions on the purchases before selling them to other entity considering that there were no expenses related to manufacturing, processing, labour, etc. Further, there were no transportation/ warehousing expenses booked in their financials. Furthermore, there were no opening stock in the financial statement of Kuberaa and Lakshmi Metals in FY 2017-18 and Kuberaa and Lakshmi Metals were having sale/purchase transactions among themselves or with Noticee No.1 only. This clearly indicated that the same goods were purchased and sold in circular manner among these three entities without movement of any goods i.e. these sales and purchases transactions in the books of these three entities were not actual sale/ purchase transactions but mere book entries to inflate the sales and purchases of Noticee No.1.

v. Further, the KYC documents of the M/s Lakshmi Metals and Kuberaa, received from Bank of India (BOI) revealed that the mobile number (959XXXX626) mentioned in the bank account opening form (AOF), belonged to Mr. Senthil Kumar, a partner in M/s Kuberaa Enterprises. Also, Noticee No.2 in his second deposition dated March 04, 2024 inter-alia submitted that Mr. Senthil Kumar was also the owner of M/s Lakshmi Metals and of M/s Kuberaa Enterprises. Also, the bank account of M/s Lakshmi Metals was opened on March 15, 2018 and became non-maintainable since August 16, 2020. Thus, it appeared that both the firms were created to execute the false sale/purchase transactions along with Noticee No.1.

vi. During the investigation, it was observed that both the entities i.e. Kuberaa and Lakshmi Metals did not have any transactions in the bank accounts during FY 2021-22 & 2022-23. In this regard, Kuberaa inter-alia submitted that during the FY 2017-18 and FY 2018-19, it had purchased materials from Noticee No.1 which were sold to M/s. Lakshmi Metals in FY 2019-20 & 2020-21. Further, Kuberaa had also submitted the copies of purchase invoices and a copy of non-exclusive distribution agreement with Noticee No.1 in support of its submission.

vii. Based on the abovementioned facts, it was alleged that Noticee No.1, has overstated its sales by Rs.51 crores and Rs.120 crores in the FYs 2017-18 & 2018-19 and purchases by Rs. 43 crores and Rs.104 crores in the FYs 2017-18 & 2018-19 respectively, which led to misrepresentation /misstatements of its financials.

14.7.2. Reply –

As regards the allegation of inflation of Sale/Purchase transactions of Noticee 1, it was submitted that, all the relevant transactions in this regard are recorded as per the prevailing GST rules and taxes towards the same were discharged suitably. Further, they were reported suitably in the respective financials, hence, the question of inflation does not arise. Thereafter, vide the additional submissions, it was sated that Noticee No.1's transactions with Kubera Enterprises and Lakshmi Metals were conducted in a transparent and legitimate manner, adhering to all regulatory requirements. Further, it was submitted that the transactions between

Lakshmi Metals and Kubera Enterprises were of independent nature which the Noticee No.1 had no knowledge of and therefore cannot be held responsible for them in any way. Thereafter the Noticee submitted that the mere fact that both Kubera Enterprises and Lakshmi Metals have the same auditor does not imply any impropriety on the part of Noticee No.1. The allegations of circular transactions and inflated sale/purchase transactions are speculative, unsupported by evidence, and without merit.

14.7.3. Finding -

In this regard, I note that the allegation against Noticee No.1 is that it had inflated its sales and purchases by way of circular transactions and not that the transactions per se were wrong as per GST regulations. As long as the entries for the inflated sales and purchases are entered correctly, they may be GST compliant. I also note that even if transactions are GST compliant that does not mean they are not manipulated and further it certainly does not mean that the transactions are in compliance with the relevant SEBI rules and regulations. Therefore, I do not accept the submissions of Noticee No.1. Next, I do not agree with the submission of Noticee No.1 that this allegation is speculative and unsupported by evidence as the relevant bank statements in this regard have clearly been examined by SEBI and have also been provided along with the SCN. Thereafter, I note that in a circular trades, several parties enter into a conspiracy to buy and sell shares frequently to influence the stock price, resulting in the notion of active stock due to inflated volume influencing the stock price. The fact that over four consecutive years, money varying from Rs.3 crores to Rs.114 Crores originally sent by Noticee No.1 to Lakshmi Metals were transferred back to it through Kubera Enterprises, in the same route, for the exact same price appears to be a synchronized transaction by all the parties involved. Furthermore, the fact there were no transportation/ warehousing expenses booked in their financials, there were no opening stock in the financial statement of Kuberaa and Lakshmi Metals in FY 2017-18 and Kuberaa and Lakshmi Metals were having sale/purchase transactions among themselves or with Noticee No.1 only, is an indication that the same goods were purchased and sold in circular manner among these three entities without movement of any goods i.e. these were mere book entries to inflate the sales and purchases of Noticee No.1. I also note that Noticee No.1 has not submitted any documents in support of its claims in this regard. Therefore, I do not agree with Noticee No.1's submission that transactions with

Kuberaa Enterprises and Lakshmi Metals were conducted in a transparent and legitimate manner and adhering to all regulatory requirements. In view of the above, I find that Noticee No.1 has has overstated its sales by Rs 51 crores and Rs. 120 crores in the FYs 2017-18 & 2018-19 and purchases by Rs. 43 crores and 104 crores in the FYs 2017-18 & 2018-19 respectively, which led to misrepresentation /misstatements of its financials.

14.8. Did not make provision for impairment of investment and advances/loans to Cerebra LPO India Limited

14.8.1. Allegation –

i. In this regard, the investigation observed that Noticee No.1 had an investment of Rs 0.04 crore and gave advances/loans of Rs.5.94 crore to its subsidiary concern- M/s Cerebra LPO India Limited ("Cerebra LPO"), as per its financial statements for FY 2021-22. However, the said advance/loans was outstanding for last 5 years.

ii. The investigation further observed that the net worth of Cerebra LPO had been completely eroded and become negative since FY 2018-19. Accordingly, it had NIL revenue and negative profit after tax during FYs 2020-21 & 2021-22. The financial position of Cerebra LPO is as below:

Rs. In crore *Table No.--9*

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue from Operations	0.57	0.26	0.56	0	0
Profit after tax	-0.11	-7.06	-0.05	-0.01	-0.002
Net worth	0.09	-6.96	-7.02	-7.04	-7.04

iii. From the above table, it was seen that despite complete erosion of the net worth of Cerebra LPO, Noticee No.1 did not make the provision for the same. The same was also noted by the statutory Auditor.

iv. The response of Noticee No.1 submitted in this regard and Noticee No.2 during its deposition was not justified as the net worth of the subsidiary - Cerebra LPO became negative since FY 2018-19 and the subsidiary ceased to generate revenue since FY 2020-21. Noticee No.1 was required to assess at the end of each reporting period

whether there was any indication that an asset may be impaired. If any such indication existed, the entity should have estimated the recoverable amount of the asset, as per IND AS 36.

v. Since Noticee No.1 did not make the necessary impairment assessment in terms of IND AS-36 at the end of each reporting period knowing that net worth of Cerebra LPO has been negative, it was alleged that Noticee No.1 had overstated its financial statements by an amount of Rs.5.98 crore during the investigation period i.e. for FYs 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23.

14.8.2. Reply –

As regards the aforesaid allegation, it was submitted that, Cerebra LPO India Limited was started to create and expand the business in Legal Process Outsourcing. In the USA and the UK the legal costs were on the rise and number of cases also tripled, this led to the formation of Cerebra LPO India Limited. However, over a period of time, the management started feeling it is not worth going ahead. Cerebra currently in the process of finding the party to buy its subsidiary and hope that the amount of payment effected towards trade will be recovered. Thereafter, vide the additional submissions, it was sated that, the decision to not make a provision for impairment of the investment and advances/loans to Cerebra LPO was made in compliance with IND AS 36 and based on legitimate business considerations. The subsidiary's ongoing operations and recovery efforts substantiate the management's judgment.

14.8.3. Finding -

In this regard, I note that advances/loans of Rs.5.94 crore were given by Noticee No. 1 to its subsidiary Cerebra LPO, prior to 2017-18, as observed from the Financial Statements of Cerebra. Further, I note that IND AS 36 requires regular assessments of assets for indications of impairment and the reversal of impairment losses when certain conditions are met or any indication that assets is impaired except intangible assets which are not amortised, in this case testing should be done annually. The objective of Ind AS 36 is to ensure that assets are carried at no more than their recoverable amount and to provide

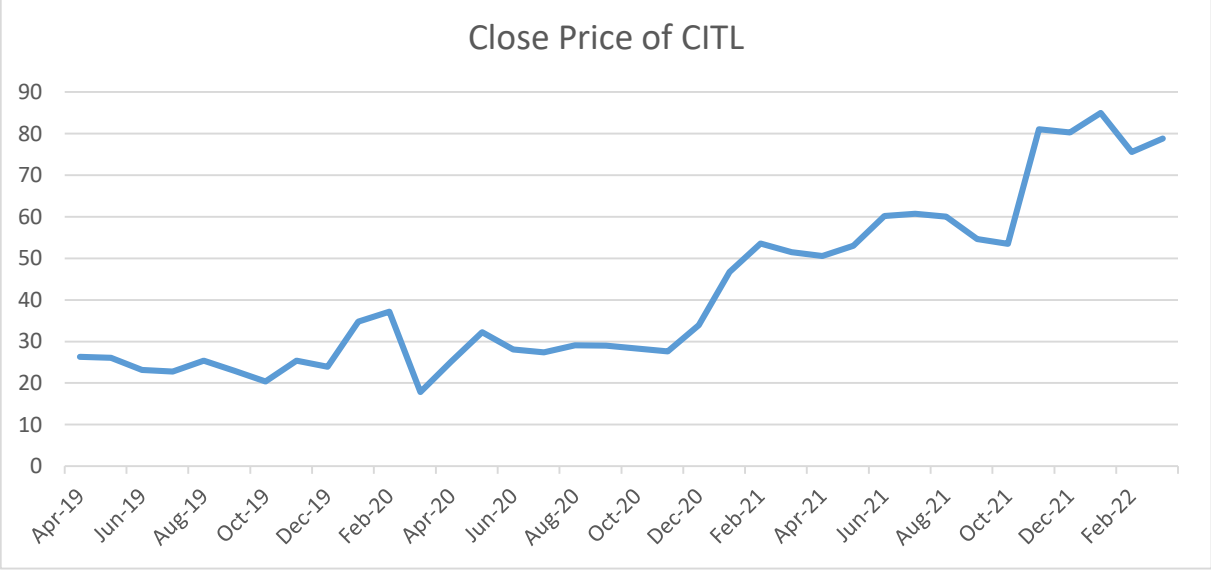
information about the impairment of assets in the financial statements in order to guides entities to assess and report the impact of impairments on their financial performance and financial position. Therefore, Noticee No. 1 should have impaired the advances/loans of Rs.5.94 crore after knowing that the net worth of Cerebra LPO had been completely eroded and become negative since FY 2018-19 and reported it in its annual financial statements, until it is in the process of finding the party to buy its subsidiary after which as per IND AS 36 the said impairment loss could have been revised. Hence, I cannot accept the Noticee's submission that the decision to not make a provision for impairment of the investment and advances/loans to Cerebra LPO was made in compliance with IND AS 36. In view of the above, I find that Noticee No. 1 has overstated its financial statements by an amount of Rs.5.98 crore during the investigation period i.e. for FYs 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23.

14.9. Impact on the Noticee No.1's scrip price due to manipulated financial figures.

14.9.1. Allegation –

i. In this regard, the investigation observed that publication of such manipulated financial figures by Noticee No.1 had observable impact on the Noticee No.1's scrip price as depicted below:

Chart no. 1



ii. Annual reports/result for the FYs 2019-20, 2020-21 and 2021-22 were submitted/filled by Noticee No.1 to exchanges as below:

Table No -10

FYs	Date of filling
2019-20	04-September 2020
2020-21	07-September 2021
2021-22	07-September 2022

iii. A comparison of the scrip price movement with BSE Sectoral Indices-Information Technology and Sensex on quarterly basis, commencing from March, 2018 ending quarter is given below:

Table No-11

Quarters ending	Closing price of CITL on last day of the quarter	As % rise /fall in value of the share price compare to the base level as on Mar -2019 quarter	BSE Sectoral Indices Information Technology on last day of the quarter	As % rise/fall in BSE Sectoral Indices-Information Technology, compare to base level as on March	Sensex on last day of the quarter	As % rise/fall in Sensex compare to base level as on March 2019 quarter
Mar-19	25.4	100 (Base level)	15280.3	100 (Base level)	36018.49	100 (Base level)
Jun-19	23.15	9% (Fall)	15654.11	2% (Rise)	39806.86	11% (Rise)
Sep-19	22.95	10% (Fall)	15669.92	3% (Rise)	37181.76	3% (Rise)
Dec-19	23.95	6% (Fall)	15475.81	1% (Rise)	41072.94	14% (Rise)
Mar-20	17.85	30% (Fall)	12842.72	16% (Fall)	38910.95	8% (Rise)
Jun-20	28.1	11% (Rise)	14886.92	3% (Fall)	32906.05	9% (Fall)
Sep-20	29	14% (Rise)	19979.89	31% (Rise)	38754	8% (Rise)
Dec-20	33.95	34 % (Rise)	24248.26	59% (Rise)	44435.83	23% (Rise)
Mar-21	51.5	103% (Rise)	26543.24	74% (Rise)	49747.71	38% (Rise)
Jun-21	60.15	137% (Rise)	30135.93	97% (Rise)	52067.51	45% (Rise)
Sep-21	54.65	115% (Rise)	34418.54	125% (Rise)	57763.53	60% (Rise)
Dec-21	80.25	216% (Rise)	37844.49	148% (Rise)	57365.85	59% (Rise)
Mar-22	78.85	210% (Rise)	36402.74	138% (Rise)	55629.3	54% (Rise)

iv. From the above, it was observed that the shares of Noticee No.1 was trading at Rs. 25.40 on April 01, 2019 (First day of IP) which rose to Rs. 78.85 (210% rise) on March 31, 2022 (Last day of IP). Comparatively, it was observed that during the IP, SENSEX and BSE Sectoral index rose only 58% and 138%, respectively.

v. In this regard, investigation noted that Regulation 4(1) of the PFUTP Regulations, inter alia, seeks to prohibit any act of manipulation or concealment of manipulation of the books of accounts or financial statements of a company that would directly/indirectly manipulate the price of securities of that company. Therefore, such acts are fraudulent as well as unfair trade practice relating to

securities. The act of large scale misrepresentation/ misstatement/manipulation in financial statements by Noticee No.1, that manipulated the scrip price, inducing the investors to deal in its scrip or to remain invested in the same, was fraudulent and unfair trade practice relating to the securities market. Therefore, Noticee No.1 was alleged to have violated the provisions of Regulation 4(1) of the PFUTP Regulations. Further, the act of Noticee No.1, manipulating its scrip price was allegedly a violation of the provisions of Regulations 4(2)(e) of PFUTP Regulations. Thereafter, by the act of publishing and disseminating false and misleading financial statements to the stock exchange, Noticee No.1 was also alleged to have violated the provisions of Regulation 4(2)(f), 4(2)(k) and 4(2)(r) of PFUTP Regulations.

14.9.2. Reply –

As regards the impact of the manipulated financial figures on the price of the Scrip and offloading shares by the promoters, it was submitted that the management reported all the information to BSE/NSE from time to time. Accordingly, audited financials were presented to the Board and published and shares with all concerned. Therefore, there cannot be any manipulation of the financial figures which impacted the scrip. Thereafter, vide their additional submissions, Noticee No. 2 & 3 submitted that, the allegation lacks substantive basis. They were not involved in the alleged activities and acted in full compliance of the regulatory and legal obligations. Therefore, the said allegation should be dismissed.

14.9.3. Finding -

From the above, I note that price of the CITL rose considerably during the investigation period, which is an indication that the investors were taking trading decisions in the scrip on basis of the misstated/ misrepresented financial statements published by Noticee No.1. Also, the publication of misstatements/ misrepresentation created an artificial increase in the share price which facilitated the promoters to off-load around 2% of their shares at prices ranging from Rs.78.85 to Rs.87.15 per shares in the FY 2021-22 and further, 4.82% of their shares at price ranging from Rs.9.3 to Rs.19.4 per share between December 14, 2022 to March 21, 2023. This resulted in a significant decrease of the Pomoter's shareholding from 7.10% to 0.23%. If the same had been avoided, then the profits/losses and financial position of Noticee No.1 would have been significantly different from the one's reported. Further, it would have also had

a huge impact on the decision-making process on all the stakeholders including minority shareholders of Noticee No.1 and accordingly, the impact on the scrip price would have been different than what was projected. I also note that the claims of the Noticees such as the management reporting all the information to BSE/NSE from time to time is not supported with any documents. Therefore, I cannot accept the contention of the Noticees that there cannot be any manipulation of the financial figures which impacted the scrip or that the allegation lacks substantive basis and find that their submissions in this regard are without any merit.

15. In view of the above, I find that Noticee No.1 misutilized/diverted/ misappropriated funds and knowingly, reported wrong, false and misleading statements and information, continued to create an impression among the investors and other stakeholders and misrepresented/misstated financial statements for FYs 2019-20, 2020-21 and 2021-22 which were not reflecting a true and fair view of its financial performance and position. Thus, Noticee No.1 has misled and defrauded the investors in making their investment decision in the scrip being traded in the securities market, while causing prejudice to them and has accordingly violated the provisions of Regulations 4(1), 4(2), 33(1), 34(3) and 48 of LODR Regulations and Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k) and 4(2)(r) of the PFUTP Regulations. Further, Noticee No.1 failed to comply with the applicable provisions pertaining to disclosure related issues and with material related party transactions in violation of Regulation 23(2), 23(4), 23(9) and 30 of the LODR Regulations read with SEBI Circular no. CIR/CFD/ CMD/13/2015 dated November 30, 2015 and failed to provide information as sought vide Summons dated October 12, 2023, November 21, 2023, December 22, 2023 and February 21, 2024 required for the investigation in the matter, in violation of Section 11C(2) read with Section 11C(3) of SEBI Act.

16. **Role of Noticee No.2 to 5**

a) As regards to Noticee No.2 and 3, SCN observed that Noticee No.2, being the MD and Noticee No.3, being the WTD and CFO, failed to perform their duties and obligations which resulted in misutilisation/ diversion/ misappropriation of funds and publication of manipulated/ misrepresented/misstated financial statements of CITL for FYs 2018-19, 2019-20, 2020-21 2021-22 and 2022-23 including furnishing false certification of the company's financial statements. Accordingly, it was alleged that Noticee No.2 and 3 violated the provisions of Regulation 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3),

4(2)(f)(iii)(6), 4(2)(f)(iii)(7) 4(2)(f)(iii) (12) and 17(8) Regulation of LODR Regulations, Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of the PFUTP Regulations and Section 27(1) of SEBI Act.

b) I note that Noticee No.2 and 3 submitted that they acted in good faith and relied on the compliance procedures managed by the Company Secretary. Further, the transaction was legitimate and intended to advance the company's business interests, with no malafide intent or harm caused to stakeholders. They further submitted that they are not liable for the alleged noncompliance as the assessment of receivables and the need for provisions, the procedural aspects of obtaining requisite approvals and the alleged misappropriation, misutilization, diversion, or siphoning off of funds fall outside their direct operational responsibilities. They reasonably relied on the expertise of the finance team and external auditors. Accordingly, the allegation against them is without merit and should be dismissed.

c) In this regard, I note that both Noticee No.2 and 3 were Key Managerial Personnel ("KMP") of Noticee No.1 as per the Companies Act, 2013 as Noticee No. 2was not only a promoter, MD on Noticee No.1's Board of Directors but also a member of Corporate Social Responsibility (CSR) Committee, whereas Noticee No.3 was promoter, WTD, member of the Audit Committee, member of CSR Committee, member of Stakeholders Relationship Committee and a member of Risk Management Committee of Noticee No.1. Further they both had attended most of the meetings of the Board of Directors held during FYs 2019-20 to 2021-22 during the IP in addition to signing Noticee No.1's financials for the said years. Further, Noticee No.2 was also shown as one of the signatories on the certificate, as required under Regulation 17(8) of LODR Regulations, for FY 2019-20 to 2021-22 inter alia stating that financial statements present a true and fair view and are in compliance with existing accounting standards, applicable laws and regulations. In this regard, I note that both Noticee No. 2 and 3 were responsible for the overall management and administration of the company. They were typically part of the senior management team and had significant decision-making authority. Thus, they were directly involved in day-to-day financial affairs and instrumental in the company's operations. I also note that in every company, the directors have a duty and responsibility to ensure that proper systems and controls are in place for financial reporting and has to monitor the efficacy of such systems.

Further they were also one of the signatories of the company's financial statements for FYs 2019-20, 20120-21 and 2021-22. Accordingly, I note that they cannot claim to be just signatory to the financial statements who signed on good faith as they were part of the BoDs who were involved in finalizing the financial statements for all the relevant years during the relevant board meetings, which were attended by Noticee No. 2 and 3. Hence, I do not accept Noticee No.2 and 3's submission that they were never a part of the day to day activities of the company.

d) In view of the above, as demonstrated in the preceding paras, I find that Noticee No.2 and 3 failed to perform their duties and obligations which resulted in misutilisation/ diversion/ misappropriation of funds and publication of manipulated/ misrepresented/misstated financial statements of CITL for FYs 2018-19, 2019-20, 2020-21 2021-22 and 2022-23 including furnishing false certification of the company's financial statements.

e) Accordingly, I find that Noticee No.2 and 3 have violated Regulation 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(iii)(1), 4(2)(f)(iii)(3), 4(2)(f)(iii)(6), 4(2)(f)(iii)(7) and 4(2)(f)(iii) (12), 17(8) of the LODR Regulations, Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of PFUTP Regulations and Section 27(1) of the SEBI Act.

f) As regards to Noticee No.4 and 5, SCN observed that Noticee No.4 and Noticee No.5, being the CFOs, failed to perform their duties and obligations which resulted in misutilisation/ diversion/ misappropriation of funds and publication of manipulated/ misrepresented/misstated financial statements of CITL for FY 2021-22. Accordingly, it was alleged that they have violated the provisions of Regulation 17(8) of LODR Regulations, Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of the PFUTP Regulations and Section 27(1) of the SEBI Act.

g) I note that Noticee No.4 and 5 submitted that they were neither in office nor associated with any position of authority when the alleged transactions occurred, and that they joined the company after the alleged transactions and they had resigned before the filings were made. Further, Noticee No. 5 submitted that the statutory auditor's report for FY 2022-2023 was prepared after he resigned on August 30, 2022 and 3 months' time was granted to fulfil the obligations specified in the agreement dated March 17, 2022, which became a part of the financials of FY 2023, therefore benefit of the doubt has to granted to Noticee No. 5 in this regard and that the sale

agreement dated March 17, 2022 was signed by him in good faith even though the preliminary dealings and oral communications leading to this transaction were conducted prior to his joining. Further the technical lapses in disclosure was handled by another department and cannot be attributed to him. Therefore, benefit of the doubt ought to be given to Noticee No. 5.

h) In this regard, I note that Noticee No. 4 & 5 were the CFOs of the company for 11 months and 8 months during the IP i.e. January 04, 2021 to November 20, 2021 and January 01, 2022 to August 30, 2022, respectively. They were KMPs in Noticee No.1 by virtue of their designation in terms of the Companies Act, 2013, even if it was only for 11 months and 8 months, respectively. Being CFO, they have each signed Noticee No.1's financials for FY 2020-21 and FY 2021-2022, respectively and were also shown as one of the signatories on the Certificate stating that financial statements present a true and fair view and are in compliance with existing accounting standards, applicable laws and regulations, as required under Regulation 17(8) of LODR Regulations, for FY 2020-21 and FY 2021-2022, respectively. Further, Noticee No. 4, vide email dated March 10, 2024, had inter-alia accepted that the financials statement for the FY 2020-21 and the compliance certification under Regulation 17(8) of LODR Regulations were signed by him. Also, Noticee No. 5, vide email dated March 10, 2024, had inter-alia submitted that the financials statement for the FY 2021-22 and the compliance certification under Regulation 17(8) of LODR Regulations, were signed by him.

i) In this regard, I also note that a CFO is the senior most executive responsible for the finance of a company/organization, with the core responsibility for internal and external financial reporting. From Regulation 17(8) of LODR Regulations, I note that it mandates the CEO as well as the CFO to 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, while placing the financial results before the Board of Directors. Thus, the CEO and CFO need to inter-alia certify that the financial statements present a true and fair view of the company's affairs as well as are in compliance with existing accounting standards, applicable laws and regulations. Further, they also need to inter-alia certify that there were no transactions of the listed entity during the said financial years which were fraudulent in nature. In this connection, I note that Noticee No.4 & 5 had given CFO certification in annual report of FY 2020-21 to FY 2021-22 in accordance with the Regulation 17(8) of the LODR Regulations.

In this regard, I note that they contended that they were not in office during the relevant point of time of occurrence of violation. However, as brought out in the preceding paras, they admitted to signing the financials of their respective period in the company and they also gave CFO certification in annual report of FY 2020-21 to FY 2021-22 in accordance with the Regulation 17(8) of the LODR Regulations. In view of the above, their contentions cannot be accepted.

j) Accordingly, I note that Noticee No.4 and Noticee No.5, being the CFOs, failed to perform their duties and obligations which resulted in misutilisation/ diversion/ misappropriation of funds and publication of manipulated/ misrepresented/misstated financial statements of CITL for FY 2021-22 and have violated Regulation 17(8) of LODR Regulations, Regulations 4(1), 4(2)(e), 4(2)(f), 4(2)(k), 4(2)(r) of PFUTP Regulations and Section 27 (1) of the SEBI Act.

17. I have carefully considered the facts and evidences available on record against the Noticees, the circumstances surrounding the violations committed by them and the submissions advanced by the Noticees as well as following the principles of preponderance of probabilities, I hold that the charges relating to violation of the provisions of the SEBI Act, PFUTP Regulations and LODR Regulations as brought out in detail in this order are found to have been substantially established.

18. In this regard, I place reliance on the judgment of Hon'ble Supreme Court of India the matter of Chairman, **SEBI Vs Shriram Mutual Fund** {[2006]5 SCC 361} wherein Hon'ble Supreme Court 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. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention made by the defaulter with guilty intention or not*.''

19. In view of the above, I find that this is a fit case to issue directions under Sections 11(1), 11(4), 11(4A), 11B (1) and 11 B (2) of the SEBI Act to Noticee No 1 to 5 and all the Noticees are liable to be imposed with of penalty under Sections 15A (a), 15HA and 15HB of the SEBI Act, to the extent applicable to them. The relevant provisions of the SEBI Act are reproduced as under: -

Penalty for failure to furnish information, return, etc.

15A. *If any person, who is required under this Act or any rules or regulations made thereunder,—*

(a) *to furnish any document, return or report to the Board, fails to furnish the same, he shall be liable to a penalty 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*.

"***Penalty for fraudulent and unfair trade practices.***

15HA. *If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty [which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher]."*

"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."*

20. I note that Section 15J of the SEBI Act provides factors which are required to be considered while adjudging the quantum of penalty. Section 15J of the SEBI Act reads as follows: -

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

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

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

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

(c) the repetitive nature of the default.

Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and

15HA shall be and shall always be deemed to have been exercised under the provisions of this section."

21. I find that the material available on record neither mentions the amount of disproportionate gain or unfair advantage was made by the Noticees as a result of the default nor indicates the amount of specific loss caused to investors or group of investors as a result of the default by the Noticees. However, the fact that Noticee No.1 misrepresented its financials and violated LODR Regulations and the SEBI Act, has been established in the preceding paragraphs. I also note that at several instances rules, regulations and accounting standards have also not been followed, all resulting in the violation of PFUTP Regulations. Further, the violations have occurred over a period of four financial years. I also note that Noticee No. 2 is the Managing Director of CITL at the time of the violation and remains to be one till date. Thereafter, I note that Noticee No.3 is the WTD and CFO of CITL at the time of the violation and remains to be one till date. Subsequently, I note that, Noticee No. 4 was the CFO of CITL for a period of almost 11 months i.e. 04.01.2021 to 20.11.2021 & Noticee No. 5 were the CFO of CITL, for a period of 8 months i.e. 01.01.2022 to 30.08.2022; and they all were responsible for full, fair and accurate, information regarding the company's financials for the time they served in CITL during the period of violation, but they failed to do the needful. Hence the aforesaid Noticees's act/practice of deliberate misrepresentation of the company's financial statements and manipulation of CITL's scrip price, operated as a device/scheme to defraud the investors in the securities market, resulting in violation of various provisions of PFUTP Regulations. In this regard, I would like to rely on the observation of Supreme Court in **N. Narayanan V. SEBI, (2013) 12 SCC 152**, wherein the following observations were made;

"*33. Prevention of market abuse and preservation of market integrity is the hallmark of securities law. Section 12-A read with Regulations 3 and 4 of the 2003 Regulations essentially intended to preserve "market integrity" and to prevent "market abuse". The object of the SEBI Act is to protect the interest of investors in securities and to promote the development and to regulate the securities market, so as to promote orderly, healthy growth of securities market and to promote investors' protection. Securities market is based on free and open access to information, the integrity of the market is predicated on the quality and the manner on which it is made available to market. "Market abuse" impairs economic growth and erodes investor's confidence. Market abuse refers to the use of manipulative and deceptive devices, giving out incorrect or misleading information, so as to encourage investors to jump into conclusions, on wrong premises, which is known to be wrong to the abusers. The statutory provisions mentioned earlier deal with the situations where a person, who deals in*

securities, takes advantage of the impact of an action, may be manipulative, on the anticipated impact on the market resulting in the "creation of artificiality". The same can be achieved by inflating the company's revenue, profits, security deposits and receivables, resulting in price rise of the scrip of the company. Investors are then lured to make their "investment decisions" on those manipulated inflated results, using the above devices which will amount to market abuse."

Directions:

22. In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 19 of the SEBI Act read with Sections 11(1),11(4), 11 (4A), 11B(1), and 11B (2) of the SEBI Act and Rule 5 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995, hereby issue the following directions:

    i. Noticee No. 1, is hereby restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of Five (5) years, from the date of coming into force of this order;

    ii. Noticee No. 2 and 3, are hereby restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of Three (3) years, from the date of coming into force of this order;

    iii. Noticee No. 4 and 5, are hereby restrained from accessing the securities market and further prohibited from buying, selling or otherwise dealing in securities, directly or indirectly, or being associated with the securities market in any manner, whatsoever, for a period of One (1) years, from the date of coming into force of this order;

    iv. Noticee No. 2 and 3 are hereby prohibited from holding any position as Director or Key Managerial Person of any other listed company for a period of one (1) year.

    v. The obligation of the Noticees, restrained/prohibited by this Order, in respect of settlement of securities, if any, purchased or sold in the cash segment of the recognized stock

exchange(s), as existing on the date of this Order, are allowed to be discharged irrespective of the restraint/prohibition imposed by this Order. Further, all open positions, if any, of the Noticees, restrained/prohibited in the present Order, in the F&O segment of the recognised stock exchange(s), are permitted to be squared off, irrespective of the restraint/prohibition imposed by this Order.

vi. Further, Noticee No. 1 to 5, are hereby imposed with the following penalties, as specified;

Noticee No.	Name of Noticee	Provisions under which penalty imposed	Penalty
1	**Cerebra Integrated Technology Limited**. (AAACC5941K)	Sections 15A(a), 15HA & 15HB of SEBI Act	**Rs.20,00,000/-** (Rupees Twenty Lakh Only)
2	**Mr. Ranganathan Venkatraman**, (ABOPR2170F)	Sections 15HA & 15HB of SEBI Act	**Rs. 15,00,000/-** (Rupees Fifteen Lakh Only)
3	**Mr. Vishwamurthy Phalanetra** (AANPV2162M)	Sections 15HA & 15HB of SEBI Act	**Rs. 15,00,000/-** (Rupees Fifteen Lakh Only)
4	**Mr. Kishan S Rao**, (ARXPK0976D)	Sections 15HA & 15HB of SEBI Act	**Rs. 6,00,000/-** (Rupees Six Lakh Only)
5	**Mr. H S Venkatesh**, (AAHPV2269D)	Sections 15HA & 15HB of SEBI Act	**Rs. 6,00,000/-** (Rupees Six Lakh Only)

vii. The Noticees shall remit / pay the said amount of penalty, within a period of forty-five (45) days from the date of receipt of this order, through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT → Orders →Orders of EDs/CGMs → PAY NOW. In case of any difficulties in online payment of penalties, the Noticees may contact the support at portalhelp@sebi.gov.in.

viii. In case of failure of the Noticees to comply with the aforesaid applicable directions, SEBI, on the expiry of three months period from the date of this Order, may recover such amounts, from the aforesaid Noticees as specified in paragraph 22(vi) of this Order, in accordance with Section 28A of the SEBI Act including such other provisions contained in securities laws.

ix. For any non-compliance of this order, the Noticees shall be subject to strict action under the applicable provisions of the law, including prosecution.

23. The above directions shall come into force with immediate effect.

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

Date: January 30, 2025

Place: Mumbai

G RAMAR
CHIEF GENERAL MANAGER
SECURITIES AND EXCHANGE BOARD OF INDIA