

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/BM/DS/2024-25/30796-30803]**

**UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA
ACT, 1992, AND RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND
IMPOSING PENALTIES) RULES, 1995**

In respect of

Noticee No	Name of entity	PAN
1	Jai Anmol Ambani	AJPPA3678N
2	Late Padmanabh P Vora	AAGPV7079R
3	Lt. Gen. Syed Ata Hasnain (Retd.)	ABJPH7042P
4	Deena Asit Mehta	AABPM6683L
5	Gautam Bhailal Doshi	AELPD0540F
6	Parul Jain	AHBPJ6720E
7	Krishnan Gopalakrishnan	AAFPI8791R
8	Raj Kumar M	ADYPR9596D

In the matter of
Reliance Home Finance Limited

BACKGROUND:

1. Securities and Exchange Board of India (hereinafter being referred to as “**SEBI**”) conducted investigation in the matter of Reliance Home Finance Limited (hereinafter referred to as “**the Company**” / “**RHFL**”). On the basis of investigation conducted by SEBI, it was alleged that the Noticees have violated provisions of SEBI (Listing Obligations and Disclosure requirements) Regulations, 2015 (hereinafter referred to as “**SEBI LODR Regulations, 2015**”)

and Securities Contracts (Regulation) Act, 1956 (hereinafter referred to as “**SC(R) Act, 1956**”), as specified in Table – 1 below.

Table - 1

<u>Noticee</u>	<u>Violations</u>	<u>Adjudication Proceedings initiated</u>
Noticee 1 – Jai Anmol Ambani	Regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii) (3) & (6) of SEBI (LODR) Regulation, 2015 r/w Section 21 of SC(R) Act, 1956	Section 15HB of SEBI Act, 1992 and section 23H of SC(R) Act, 1956
Noticee - 2 - Late Padmanabh P Vora; Noticee 3 - Lt. Gen. Syed Ata Hasnain (Retd.) ; Noticee 4 - Deena Asit Mehta ; Noticee 5 – Gautam Bhailal Doshi	Regulation 17(9) (b), 18(3) read with Clause A (1), (4), (5); B((1)(2) under Part C of Schedule II , 21(4) read with Part D of Schedule II, regulations 25(4) (c), 25(5) of the SEBI (LODR) Regulations, 2015 r/w Section 21 of SCRA, 1956	
Noticee 6 – Parul Jain	Regulation 6(2)(a) and (c) and 17(7) read with Schedule II Part A ((I),O), regulation 30(1) of SEBI (LODR) Regulations, 2015 read with Section 21 of SC(R) Act, 1956	
Noticees 7 – Krishnan Gopalakrishnan and Noticee 8 – Raj Kumar M	Regulation 17(5)(a) and 26(3) of SEBI (LODR) Regulations, 2015 read with section 21 of SC(R) Act, 1956	

APPOINTMENT OF ADJUDICATING OFFICER

- Vide Order dated March 03, 2022, the undersigned was appointed as the Adjudicating Officer (“**AO**”) under Section 19 and Section 15-I of the SEBI Act, and Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties Rules, 1995 (hereinafter referred to as “**Adjudication Rules**”) to enquire into and

adjudge under the provisions of Section 15HB of SEBI Act, 1992 and section 23H of SC(R) Act, 1956, the alleged aforementioned provisions.

SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

3. Show Cause Notice no. EAD/BM/DS/31131/2022 dated July 29, 2022 (hereinafter referred to as “**SCN**”) was issued to the Noticees via Speed Post Acknowledgement Due (SPAD) and digitally signed e-mail under the provisions of Rule 4(1) of the Adjudication Rules and section 15-I of the SEBI Act, 1992, calling upon the Noticees to show cause as to why an inquiry should not be held against them for the aforesaid alleged violations of provisions mentioned in Table – 1 above, and why penalty, if any, should not be imposed on them under Section 15HB of SEBI Act, 1992 and section 23H of SC(R) Act, 1956.

4. Background of the case

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

4.2. RHFL, vide letter dated June 12, 2019 informed the Exchanges regarding resignation of PwC as statutory auditor of the company with effect from June 11, 2019 and further stated that RHFL does not agree with the reasons given by PwC for resignation and has duly responded to various queries raised by PwC.

4.3. SEBI, vide email dated June 12, 2019, advised PwC to furnish detailed reasons for resignation, findings that led to the resignation, etc. PwC submitted a copy of report dated June 03, 2019 in Form ADT – 4 on RHFL to SEBI.

4.4. Investigation was initiated by SEBI, for the FY 2018-19 (hereinafter referred to as “**the investigation period**” / “**IP**”), and following observations were made based on the examination of publicly available information, information gathered from the company, Specified GPCL borrowers, Onward borrowers, KMPs, Members of Audit Committee and Risk Management Committee:

4.5. Diversion of funds

- During FY 2018-19, ₹ 8470.65 crores were disbursed as GPCLs to 45 entities.
- Further, there was alleged mismatch of GPCLs lending of ₹ 824.60 crores as per the submissions made by RHFL and the Specified GPCL borrowers to SEBI. Therefore, the total GPCL lending during the IP was ₹ 9295.25 crores (₹ 8470.65 crores + unaccounted disbursements of ₹ 824.60 crores) which was disbursed to 45 financially weak entities having either negative or negligible net worth or no tangible assets, nil or negative Operating Cash flow, against their 97 loan applications.
- The GPCL Borrowers were connected with Reliance ADA Group based on having common addresses, common directors, common email ids, past / current employment and cross holdings amongst themselves. GPCL borrowings were partly secured by the Guarantee given by Reliance ADA Group as Reliance Power Limited (R-Power) and Reliance Infrastructure Limited (R-Infra), in favour of the GPCL Borrowers to the extent of ₹ 2,970.32 crore, also indicating that the GPCL entities were directly or indirectly related to Reliance ADA Group as the Reliance Power Ltd. and Reliance Infrastructure Limited were giving guarantees for the GPCL lending.
- The Guarantee given in favour of GPCL Borrowers, has not yet been exercised by RHFL to recover the balance outstanding from the GPCL Borrowers depicting that the securing of the loans by the Guarantees of

the Reliance ADA Group entities was merely to show that the amount lent to GPCL borrowers is recoverable and a secured lending.

- Out of the amount of Rs. 4944.34 crores (including unaccounted disbursements of Rs. 824.60 crore) disbursed by RHFL to top 13 GPCL borrowers (hereinafter referred to as “Specified GPCL Borrowers”), an amount of ₹ 4,533.43 cr. (i.e. around 91.69%) was onward lent. These Specified GPCL Borrowers acted as conduits for passing on the loan funds amounting to ₹ 4013.43 cr. to 9 promoter related entities (as can be seen from chart given below) as none of the Specified GPCL borrowers were involved in the activities of lending or borrowing. Further, there were 54 instances wherein the Specified GPCL borrowers had onward lent around ₹ 4214.43 cr. of funds borrowed from RHFL to another entity on the same date as date of disbursement by RHFL.

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diversion of funds to the tune of Rs. 6,931.31 crores (approx.) from a listed entity viz. RHFL for the ultimate benefit of Reliance ADA Group entities and also misrepresentation and non-disclosure of material information in financial statements of RHFL to the disadvantage of the shareholders of RHFL.

4.6. Misrepresentation of financials

- In the Annual Report of RHFL for the financial year 2018-19, there was no mention about the connection of GPCL Borrowers with the Reliance ADA Group, weak financials of the Specified GPCL Borrowers and the deviations allowed by RHFL at the time of disbursing the loans to these entities. Further, the quantum of GPCL lending and the onward lending was not quantified and disclosed appropriately.
- RHFL made NPA provision for non-housing loan assets of RHFL only to the extent of Rs.78.84 crore for FY 2018-19 against the GPCL lending of Rs. 8470.65 crores even though RHFL, at the time of disbursement of GPCL loans itself, was allegedly aware of the risk of default, as one of the deviations also recorded in loan approval document was probability of default. Thus, no appropriate provision for NPA was made in the books of accounts in terms of relevant accounting standard. Also, the impairment provision for expected credit risk exposure by RHFL does not seem to be in compliance in spirit with relevant provisions of impairment as per Ind AS 109. Further, RHFL has disclosed these loans as secured against tangible and intangible assets even though they do not have sufficient collaterals. This has led to the overstatement of its revenue by not making adequate provisioning and misrepresentation of financials by presenting wrong and incomplete disclosure of GPCL lending.

4.7. Price movement during IP:

- The share price of RHFL which was Rs. 17.05 on June 12, 2019, decreased to Rs. 14.95 on June 13, 2019, when the Company made an announcement on June 12, 2019, that the company does not agree with reasons given by PwC for the resignation. The share price of RHFL fell by 12.32% on June 13, 2019 and further, the share price decreased to Rs. 10.80 on June 19, 2019. From the above, it was construed that the shareholders, while making the investment decision, were not privy to the factual financial position of the company and were induced to trade at an unrealistic price.

4.8. Failure of Corporate Governance

- From all the above observations, it was alleged that the Company and its KMPs who were instrumental to the affairs of the company, failed to comply with the governance requirements, so as to achieve the objectives of the governance principles in spirit, with respect to the financial disclosure, timely information to recognised stock exchange(s) and investors, adequacy of disclosures, and following its obligations in letter and spirit taking into consideration the interest of all stakeholders. This allegedly indicates gross misconduct and unprofessional approach on the part of the KMPs who were part of approval of these loans, which lead to erosion of the wealth of public shareholders.

4.9. Proceedings under section 11, 11B of SEBI Act, 1992 read with section 15A, 15HA, 15HB of SEBI Act, 1992 and section 23H of SC(R) Act, 1956 were initiated against RHFL, its KMPs and various borrowers responsible for devising the scheme for misuse and / or diversion of funds. Interim Order dated February 11, 2022 was passed in this matter by Ld. SEBI Whole Time Member, wherein following observations were *inter-alia* made by him:

“The senior employees of the Company have admitted before SEBI as to how the instructions for documentation/sanction of loans were flowing from the CFO itself, who in fact has a statutory responsibility to ensure that appropriate level of due diligence are put in place for protecting the wealth of the shareholders. The required affirmations about the compliances with processes & procedures have also been done by CEO and CFO, who are apparently seen to have acted in collusion with others to fructify the devious scheme to siphon off money from RHFL. The Executive Director who was part of the Risk Management Committee and Credit Committee is seen to have sanctioned GPCLs to promoter group/linked entities by glaringly accommodating gross deviations from established processes & documentations, thereby sacrificing his sacrosanct mandate as a CEO for ensuring the integrity of accounting and financial reporting systems of the Company. To sum up, all the aforesaid Noticees have played their respective roles in unison duly aided and abetted by other Noticees through a collusive nexus, to translate a pre-ordained scheme into action resulting in siphoning off of huge amounts of funds from RHFL’s accounts, a major portion of which had to be declared NPA soon after their sanctions.

It is noted that generally, a professionally managed company is governed by its Board of Directors, and in case of any malfeasance by the Company, the Board of Directors is held accountable apart from the management which supported commission of such contraventions. However, in case of RHFL it is noted that one individual person (Noticee no.2) who controls the Company due to his position as a promoter and controlling shareholder by way his direct & indirect shareholding, is seen to be exercising unfettered powers, and the KMPs of the Company like the Executive Director and CEO (Noticee no. 4) and the CFOs (Noticee no. 3 and 5), instead of bringing such misdeeds to the notice of the Board of Directors/Regulators, are prima facie found to be hand in gloves with the Noticee no. 2, in siphoning off the borrowed funds of the

Company to other financially weak promoter group companies which is evident at different stages of approval of those GPCL transactions.”

5. Various deficiencies were observed in the GPCL loan-approval process by RHFL in all the GPCL Lending. Details are as under:

- 5.1. Deviations recorded by RHFL – RHFL submitted credit approval memo (CAM) vide letter dated December 23, 2021 as part of loan documents wherein it had recorded the deviations in CAM of the GPCL lendings amounting to Rs. 5850.19 crores. From the examination of CAMs, it was alleged that various deviations were recorded viz. Field Investigation waived, Probability of Default waived, eligibility criteria not as per the norms, no creation of security, no customer rating undertaken, escrow account not opened, etc.
- 5.2. No proper documentation of loans – From the loan documents submitted by the Company, it was observed that no proper documentation was done during GPCL loan approval. From the examination of copies of 70 loan application forms, it was observed that most loan application forms were blank and the authorized signatory had just signed at the last page of the application form.
- 5.3. No due diligence – As per the Board Resolution passed by the Board of Directors in their meeting held on April 24, 2017, for loans greater than Rs. 5 Crore, the approving authority was the Credit Committee comprising of Chief Risk Officer (CRO), Chief Executive Officer (CEO) and one director. From the above, it was observed that Board has given responsibility to KMPs and the senior management of RHFL for sanctioning loans higher than stated threshold. KMPs and senior management were at the key positions in the company during the entire investigation period, even after being aware of the deviations in GPCL lending viz. Negative Net worth, Low Eligibility and Weak Financials of the GPCL borrowers, the credit committee had approved the loans without adequate rationale.

- 5.4. Loans given to entities with weak financials – RHFL allegedly had not done requisite due diligence as to whether and how these GPCL borrower entities will be able to make repayment of loans availed from RHFL. Further, considering that RHFL had disbursed the loans to the borrower entities in year FY 2018-19, these Specified GPCL Borrowers entities were advised to provide their respective key financial metrics for past 3 financial years (FY 2015-16, FY 2016-17 and FY 2017-18). It was observed that, all the above entities had either negative or negligible net worth and had no tangible assets. Also, the Operating Cash flow of these companies was either nil or negative except for Adhar Project Management and Consultancy Pvt. Ltd., whose Operating Cashflow for 2017-18 was around Rs. 77 lacs. Thus, it was observed from the above, that loans disbursed by RHFL were not commensurate with the financial position of the Borrower companies and there was a high probability of default by borrower companies, which RHFL had also recorded as one of the deviations made in the CAM. Also, out of the total amount of Rs. 4944.34 crores (including unaccounted disbursements) disbursed to these entities, an amount of Rs. 3104.76 crores has been classified as NPA as on November 30, 2020.
- 5.5. The above-mentioned deficiencies observed in the loan process indicated that RHFL was aware of the high probability of non-recovery of amount disbursed and still without requisite due diligence, approved the same.
- 5.6. It was observed that the GPCL Borrowers were connected amongst themselves and with Reliance ADA Group entities based on having common addresses, common directors, common email ids, past / current employment and cross holdings amongst themselves.
- 5.7. RHFL submitted vide its reply dated December 01, 2020 that it had disbursed loans for General Corporate Purpose to GPCL entities. Further, in the loan application document, it was mentioned that the purpose of availing such loan was to meet the working capital requirement of the applicant.

- 5.8. On the basis of submissions made by Specified GPCL Borrowers, it was observed that out of around Rs. 4,944.34 crores (including unaccounted disbursements of Rs. 824.60 crores) was lent by RHFL to these 13 entities, who in turn have onward lent around Rs. 4,533.43 cr. (i.e. around 91.69% of the funds were onward lent) on the same day or within a few days. Considering that RHFL had given these loans for General Corporate Purposes, onward lending by these entities will not qualify as the object of General Corporate Purpose.
- 5.9. From bank account statement of RHFL having account no. 00600310022347 maintained with HDFC Bank, it was noted that on 10 September 2018, RHFL obtained from ICICI Bank an amount of Rs. 300 crores, thereby making total balance of Rs. 338 crores on that day. From the said bank account statement, it was observed that an amount of Rs. 230 crores was transferred to GPCL Borrowers entities viz. Medybiz Pvt. Ltd. (Rs. 150 Crore) and Mohanbir Hi Tech Build Pvt. Ltd. (Rs. 80 crore) by RHFL on the same date. During investigation, it was also observed that these entities had onward lent the same amount to 'Reliance Capital Limited' on the same day. From the aforesaid, it was observed that RHFL was availing loan from bank on behalf of its promoter related company.
- 5.10. During the investigation, it was also observed that RHFL has extended loans to GPCL entities which in-turn was received back by RHFL from other GPCL entities. Certain instances for the same were examined and it was observed that on 05 November 2018, RHFL extended a GPCL loan of Rs. 20 crores to Indian Agri Services Pvt. Ltd. and on the same date, Indian Agri Services Pvt. Ltd. has onward lent the same amount to Phi Management Solutions Pvt. Ltd. Further, on 18 March 2019, RHFL extended a GPCL loan for Rs. 25 crores to Mohanbir Hi Tech Build Pvt. Ltd. and on the same date, Mohanbir hi-tech has onward lent the same amount to Gamesa Investment Management Pvt. Ltd. On the analysis of bank account statement of RHFL having account no. 00600310022347 maintained with HDFC Bank, it was noted that on the same

date both of these entities viz. Phi Management Solutions Pvt. Ltd. and Gamesa Investment Management Pvt. Ltd. transferred the same amount i.e. Rs. 20 crores (i.e. on 5th November 2018) and Rs. 25 Crore (i.e. on 18th March 2019), respectively to Reliance Home Finance Limited. From the above circular transactions, it was observed that RHFL was assisting GPCL entities for ever-greening (repaying) of its GPCL loans.

5.11. From the Loan applications and GPCL lending details submitted by RHFL, it was noted that loan of ₹100 crore to one entity, Aadhar Project Management And Consultancy Pvt. Ltd., was disbursed on April 27, 2018, i.e. prior to sanction of the loan on April 30, 2018. Thus, disbursement of loan even before sanctioning indicates that some of the key loan application evaluation steps were not performed by RHFL.

5.12. From all the above observations of the Onward Lending and GPCL Disbursement, it was observed that none of the Specified GPCL Borrowers business was financing activities, especially lending or borrowing and still have onward lent the funds taken from RHFL to other Reliance ADA Group entities on the same day or within a few days. This indicates that those borrower entities did not have any actual need for funds borrowed from RHFL nor did RHFL make any evaluation for loans to these entities under the head of corporate purposes for which such loans were advanced. Further, these GPCL borrower entities were acting as conduits for passing on the loan funds to other ultimate beneficiaries (other Reliance ADA Group Companies). Also, these entities were directly / indirectly connected to each other and to other Reliance ADA group entities, it was alleged that RHFL diverted these funds to the GPCL Borrower Entities which in turn transferred the money to other Reliance ADA Group entities and thereby misusing the funds of the listed company.

6. During the Investigation Period, RHFL conducted four (4) Risk Management Committee meetings, five (5) Audit Committee meetings and eight (8) Board

meetings. RHFL submitted minutes of these meetings, except minutes of Board meeting held on February 14, 2019. In the Board meeting on February 11, 2019, Board of Directors (BoD) was informed by the management that all large exposures were for general corporate purpose. Company had also placed a list of 42 entities to whom Rs. 7,017.80 Crore (o/s Rs. 6,157.55 Crore) were lent by RHFL. The BoD, after discussions, directed the Management the following:

- 6.1. No further lending to the corporates that does not fall under the policy criteria of the company and loans shall be given only for retail home loan portfolio activities for long term purposes and to the builders for residential housing constructions and for all purposes as permitted by NHB for individual / retail residential lending.
 - 6.2. Management to present a plan before the Board at their meeting scheduled to be held on February 14, 2019, regarding their strategy to fulfil the NHB requirements of continuing the license as a Housing Finance Company and to hold the home loan portfolio more than 50% by March 31, 2019.
 - 6.3. The Board further directed that the statutory auditors as well as internal auditors to check the documentation of all the loans and ensure their compliance with the Company's policies and guidelines and whether due diligence was exercised in sanctioning the loans and also to verify the adequacy of security.
7. In the board meeting held on March 28, 2019, the Statutory Auditors presented before the BoD the status of loan files and pointed out that the loans granted under the corporate loan product were seen to be sanctioned without adequate security and without justification based on the net worth and business of the borrowers.
8. From the minutes of the meetings, following observations were made:
- 8.1. Quarterly presentation was being made to the RMC, AC and Board Meetings as to the concentration risk including the names, product and amount of loan.

In the presentation made for the quarter ended June 30, 2018, in the meetings of RMC, AC and BM held on August 07, 2018, in the top 10 Exposures as on June 2018, eight exposures were disclosed as loans for 'General Purpose Corporate Loan'. In addition, as per the previously mentioned minutes, concentration of construction finance during the quarter was 92% as compared to the Home Loans of around 6%.

8.2. From the minutes of RMC, AC and BM meeting held on February 11, 2019, it was observed that management of RHFL had placed a list of 42 entities to whom Rs. 7,017.80 Crore (o/s Rs. 6,157.55 Crore) were lent by RHFL for GPCL purpose.

8.3. No disclosure of the BoD direction w.r.t. GPCL lendings was made in the disclosure for the Board Meeting held on February 11, 2019 on exchange platform, which led to misleading the investors as to the state of financial affairs of RHFL. Further, no disclosure of the Board Meeting held on March 28, 2019 was made by RHFL on Exchange Platform. The fact that RHFL had given loans for GPCL purpose and the percentage of non-housing loans is more than the housing loans given by RHFL was first highlighted to the investors on June 12, 2019, disclosure of resignation of Statutory Auditor of RHFL.

9. It was observed that inadequate disclosures were made with respect to deviation in lending from its core-business activity of housing finance and categories of lending. The details are given below:

9.1. On February 11, 2019, RHFL had submitted on exchange website an investor presentation on the financial performance of the company for quarter ended 31st December 2018. In the said presentation, RHFL had also given details of their 4 product offerings inter-alia Home Loans, Affordable Housing, Loans against property and Construction funding. In the said presentation, there was no mention of any product such as General Purpose Corporate Loans (GPCL).

9.2. On the same date i.e. February 11, 2019 in the Board Meeting, management had informed to the board that large exposures amounting to Rs. 7,017.80 crores (Rs. 6,157.55 outstanding as on 31st December, 2018) were given for general corporate purpose to 42 entities.

9.3. The Board expressed its concerns on the composition of lending portfolio of the Company (that Housing Loan portfolio have dropped from 53% to 45% as compared to the previous quarter viz. Sep 2018). Further, the Board has inter alia directed that *“No further lending to the corporates that does not fall under the policy criteria of the company and loans shall be given only for retail home loan portfolio activities for long term purposes and to the builders for residential housing constructions and for all purposes as permitted by NHB for individual / retail residential lending.”*

9.4. Thus, majority of the loans extended by RHFL were alleged to be in the nature of General Purpose Corporate Loans. Further, the same was allegedly not appropriately disclosed in the investor presentation due to which investors were misled as to the financial state of affairs of the Company.

10. The allegations levelled in the SCN against the Noticees are as under:

Noticee 6 – Parul Jain

11. Ms. Parul Jain (Noticee 6) was compliance officer of RHFL during the investigation period. She was also a ‘key managerial personnel’ in the company by virtue of her designation as the Compliance Officer.

12. During investigation, it was observed that Noticee 6 did not disclose to the Exchanges, the very crucial information viz. direction given by the board during the board meeting held on February 11, 2019. In the said meeting, the BoD had noted with concern that Housing Loan portfolio had dropped from 53% to 45% as compared to the previous quarter viz. Sep 2018 and accordingly board had inter-alia directed that *“No further lending to the corporates that does not fall under the*

policy criteria of the company and loans shall be given only for retail home loan portfolio activities for long term purposes and to the builders for residential housing constructions and for all purposes as permitted by NHB for individual / retail residential lending.”

13. Considering that necessary disclosure was not made by RHFL and also complete and timely information was not placed before the Board of Directors, Noticee 6, being the Compliance Officer of RHFL, was alleged to have failed to discharge her duties specified under regulation 6(2)(a) and (c) and 17(7) read with Schedule II Part A ((I),O), regulation 30(1) of SEBI (LODR) Regulations, 2015 read with Section 21 of SC(R) Act, 1956.

Noticee 7 – Krishnan Gopalakrishnan and Noticee 8 – Raj Kumar M

14. The details of the entities who were Chief Risk Officers (CRO) during the Investigation Period are as follows:

	Name of CRO	From	To
1	Mr. Raj Kumar M	15-05-2019	04-11-2019
2	Mr. Krishnan Gopalakrishnan	01-11-2016	20-11-2018

15. Noticee 7 was the CRO of RHFL during November 2016 to November 2018. He was also one of the members of Credit Committee / leadership council.
16. Noticee 8 was Chief Risk Officer from May 15, 2019 until November 04, 2019. He was the head of construction finance and credit risk during the investigation period. He was also one of the members of Credit Committee / leadership council from November 2018 onwards.
17. Noticees 7 and 8 were allegedly part of ‘Senior Management’ of RHFL by virtue of the code of conduct laid down by the board of RHFL (as seen from reply of Mr.

Ravindra Sudhalkar vide letter dated December 22, 2021) in accordance with Regulation 17(5)(a) of SEBI (LODR) Regulations, 2015.

18. As per the Board Resolution passed by the Board of Directors in their meeting held on April 24, 2017, the board had approved the Credit Authority Delegations (CADs) as under:

- For cases upto Rs. 5 Crore – Approving Authority is within the credit hierarchy upto National Credit Manager.
- For Cases greater than Rs. 5 Crore – The approving authority is the Credit Committee comprising of Chief Risk Officer (CRO), Chief Executive Officer (CEO) and One Director.

19. RHFL had submitted that, during the year 2018-19, following were the members of Credit Committee:

- Upto November 20, 2018 - Mr. Ravindra Sudhalkar (CEO), Mr. Amit Bapna (Director), Mr. Krishnan Gopalkrishnan (CRO).
- After November 20, 2018 - Mr. Ravindra Sudhalkar (CEO), Mr. Amit Bapna (Director), and Mr. Raj Kumar M (Head - Real Estate Credit & Credit Risk).

20. Thus, Noticees 7 and 8, being part of the credit committee were alleged to be liable for approving loans to GPCL borrowers and responsible for deficiencies observed in loan approval process.

21. As per the code of conduct approved by the board of RHFL, the term “Senior Management” shall mean officers / personnel of the Company who are members of its core management team excluding the Board of Directors. This comprises of all members of the Management one level below the Executing Director(s), if any, including all Functional Heads.

22. The Code of Conduct as applicable to all the Directors and Members of the Senior Management are inter-alia as under:

(a) Use due care and diligence in performing their duties of office and in exercising their powers attached to that office;

(b) Act honestly and use their powers of office, in good faith and in the best interest of Reliance Home Finance;

(c)

(d)

(e) Recognize that their primary responsibility is to Reliance Home Finance shareholders as a whole but they should (where appropriate) have regard for the interests of all the stakeholders of Reliance Home Finance;

(f)

(g) Be independent in judgment and actions, and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board of Directors; and

(h)

23. In view of the aforesaid, it was alleged that necessary compliance was not done with the Code of Conduct as laid down by the board of directors for the senior management of RHFL, by Noticees 7 and 8, being part of credit committee / leadership council which has approved GPCL loans, and thus, failed to discharge their duties specified under code of conduct in accordance with the Regulation 17(5)(a) and 26(3) of SEBI (LODR) Regulations, 2015 read with section 21 of SC(R) Act, 1956.

Noticees 2, 3, 4 and 5

24. The constitution of the Audit Committee (AC) and Risk Management Committee (RMC) of RHFL during the IP is given in the table below.

S. No.	Name of the Director	Category	Appointment date	Cessation Date	No. of AC meetings attended during their the IP	Part of AC/RMC during IP
1	Mr. Padmanabh Pundrikay Vora	Non-Executive Independent Director, Chairperson of Board	24-Mar-15	29-Apr-19	5	AC & RMC
2	Lt. Gen Syed Ata Hasnain (Retd).	Non-Executive Independent Director	26-Feb-18	23-Oct-19	5	AC & RMC
3	Ms. Deena Asit Mehta	Non-Executive Independent Director	24-Mar-15	30-Mar-19	4	AC & RMC
4	Mr. Gautam Bhailal Doshi	Non-Executive Independent Director	01-Jul-08	02-May-19	3	AC & RMC

25. The Audit Committee of the listed company is mandated to review the internal financial controls and the risk management systems. Further, the Risk Management Committee in any company is expected to formulate a detailed risk management policy, which will include a framework for identification of internal and external risks specifically faced by the listed entity. Hence, being members of both AC & RMC, these entities, mentioned in table above were responsible for the risk management policy of the company and reviewing the same and internal controls periodically.

26. All the above entities, as mentioned in the table above, were part of the AC and RMC of the company from 3 years prior to the Investigation Period except for Lt. Gen Syed Ata Hasnain (Retd). In view of the same, they were expected to be aware of, at least, each and every material decision taken by the Board and rationale of the same. In addition, they were expected to exercise reasonable due diligence with respect to the lending by the company which accounted for almost 50% of the

lending business and was in deviation from the normal housing activity of the company. When the GPCL loans were presented as recoverable in February 11, 2019 meeting of the AC, the members did not ask for the basis of assumption of recoverability of these loans and did not ask questions on increase in NPA.

27. It was observed from the minutes of the meetings of RMC and AC, that a presentation was made regarding the credit risk and the top 10 borrowers and the purpose of these loans, to the RMC and AC in every meeting. For instance, in the presentation on such exposures as on June 2018 made in the meeting of AC and RMC held on August 07, 2018, the top 10 exposures for the quarter April 2018 to June 2018 itself included 8 GPCL lending. Also, the names of the top 10 exposures included the names of the GPCL borrowers. However, none of the members sought any explanation till February 11, 2019 meeting about those GPCL lending by the Company or sought any explanation about the purpose of such lending or about what due diligence was done by the company for such lending.

28. These directors resigned abruptly without citing any reasons or informing to regulators about the alleged mismanagement observed by them in RHFL.

29. In view of the aforesaid, Noticees 2, 3, 4 and 5, were alleged to have failed to discharge their basic duty as a member of Audit Committee and Risk Management Committee, so as to ensure that the scheme/unfair trade practice being followed at RHFL to divert funds from RHFL for the ultimate benefit of the other Reliance ADA Group entities at the cost of the interest of minority shareholders of RHFL which could have been prevented from happening or getting further aggravated. Hence, Noticees are alleged to have violated provisions of Regulation 17(9) (b), 18(3) read with Clause A (1), (4), (5); B((1)(2) under Part C of Schedule II , 21(4) read with Part D of Schedule II, regulations 25(4) (c), 25(5) of the SEBI (LODR) Regulations, 2015 r/w Section 21 of SCRA, 1956.

Noticee 1

30. Noticee 1 was appointed as an Additional Director (Promoter) with effect from April 24, 2018. He was a Non-Executive Non-Independent Director of RHFL and resigned from the Company with effect from May 31, 2019. During the Investigation period, he attended 4 board meetings. During the Investigation Period, he was also an Executive Director of Reliance Capital Limited (Holding Company of RHFL).
31. As per the RHFL Leadership Organogram (as per submissions made by Mr. Ravindra Sudhalkar, CEO), Mr. Ravindra Sudhalkar, CEO of RHFL was reporting to Noticee 1. Screenshot of system address book of Mr. Ravindra Sudhalkar shows he was reporting to Noticee 1. Further, as also admitted by Noticee 1 in his statement that CEO of RHFL used to submit monthly/quarterly MIS to him and he used to have unstructured meeting with the CEO to discuss strategy, business operations, etc.
32. Noticee 1 being Executive Director of the Holding Company and a person to whom the CEO of RHFL was reporting, was observed to be at the helm of affairs of RHFL and responsible for taking strategic decisions for the company.
33. It was observed from the minutes of the meetings of RMC, AC and Board Meeting, that a presentation as to the credit risk and the top 10 borrowers and the purpose of these loans was being disclosed to the RMC, AC and BOD in every meeting. For instance, in the presentation on such exposures as on June 2018 made in the meeting of AC, RMC and BM held on August 07, 2018, the top 10 exposures for the quarter April 2018 to June 2018 itself included 8 GPCL lendings. Also, the names of the top 10 exposures included the names of the GPCL borrowers. However, Noticee 1 never sought any explanation about the purpose of such lending or about what due diligence was done by the company for such lending.

34. In view of above, it was alleged that Noticee 1, being on the board of Reliance Capital Limited and Reliance Home Finance limited and also a director in the other Reliance ADAG group companies where the funds were onward lent, did not exercise reasonable due diligence with respect to the entire GPCL lending and the onward lending by these GPCL entities to other Reliance ADAG group companies including Reliance Capital Limited, and thus violated Regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii) (3) & (6) of SEBI (LODR) Regulation, 2015 r/w Section 21 of SC(R) Act, 1956.

35. Noticees 3, 4, 5 and 6 filed the settlement application in terms of SEBI (Settlement Proceedings) Regulations, 2018 on September 21, 2022. Noticee 7 filed the settlement application on October 04, 2022. Noticee 1 also filed the settlement application on November 09, 2022.

36. Vide email dated September 30, 2022, following documents, which were referred to in the SCN dated July 29, 2022, but not provided as annexures to the SCN, were provided to the Noticees.

- 36.1. PwC letter dated June 11, 2019
- 36.2. PwC letter dated April 18, 2019
- 36.3. SEBI mail to PwC dated June 12, 2019
- 36.4. PwC Report dated June 03, 2019 to MCA
- 36.5. Information related to GPCL Borrowers, Onward borrowers
- 36.6. Forensic Audit Reports dated January 02, 2020 and May 06, 2020
- 36.7. Code of Conduct
- 36.8. Annexure G to the Investigation Report – Policy on Demand/ Call Loan

37. The Noticees had requested for provision and inspection of various documents.

Details of inspection of documents sought by the Noticees and provided to them are provided in the table below.

Date of Inspection	Documents sought and provided for inspection
Noticee 1 (requested for inspection vide letter dated September 20, 2022)	
06/10/2022	1. Annexures 2 and 9 to the SCN
13/10/2022	1. Annexure 1, 3, 5 to the SCN 2. Annexure 6 (Partially) to the SCN
20/10/2022	1. Annexure 6, 7, 12, 13 to the SCN 2. Annexure 10 (partially) to the SCN
03/11/2022	1. Annexure 10 (partially) to the SCN
10/11/2022	1. Annexure 8,10,11 to the SCN 2. Forensic Audit Reports dated January 02, 2020 and May 06, 2020 (partially)
23/11/2022	1. Forensic Audit Reports dated January 02, 2020 and May 06, 2020 2. Annexure 4 to the SCN 3. PwC letter dated June 11, 2019 4. PwC letter dated April 18, 2019 5. SEBI mail to PwC dated June 12, 2019 6. Annexure G to the Investigation Report – Policy on Demand/ Call Loan 7. Code of Conduct 8. Information related to GPCL Borrowers, Onward borrowers (partially)
05/12/2022	1. Information related to GPCL Borrowers, Onward borrowers (partially)
03/01/2023	1. Information related to GPCL Borrowers, Onward borrowers
Noticee 3, 4, 5 and 6 (requested for inspection vide letter dated September 20, 2022)	
29/09/2022	1. Annexures 1 to 13 to the SCN dated July 29, 2022 2. Copy of Investigation Report (IR)
12/10/2022	1. File - Summons_Vol 1 2. File - Summons_Vol 2
17/01/2023	1. NHB's letter dated July 31, 2019 2. NHB letter dated September 3, 2019 3. NHB's letter dated January 1, 2020 4. SEBI's email to Bank of Baroda dated February 12, 2020 5. Bank of Baroda's email dated July 29, 2020

Date of Inspection	Documents sought and provided for inspection
	6. Summons issued to and information submitted by Onward borrower 7. Summons issued to Ravindra Sudhakar and statement recorded by SEBI 8. Summons issued to Amit Bapna 9. Statement recorded by SEBI of Amit Bapna 10. Summons issued to Pinkesh Shah 11. Statement recorded by Pinkesh Shah 12. PwC letter dated June 11, 2019 13. PwC letter dated April 18, 2019 14. SEBI mail to PwC dated June 12, 2019 15. PwC Report dated June 03, 2019 to MCA 16. Forensic Audit Reports dated January 02, 2020 and May 06, 2020 17. Code of Conduct 18. Annexure G to the Investigation Report – Policy on Demand/ Call Loan 19. RHFL Reply dated December 01, 2020
Noticee 7 (requested for inspection vide letter dated September 16, 2022)	
27/09/2022	1. Annexures 1 to 13 to the SCN dated July 29, 2022 2. Copy of relevant extracts of Investigation Report (IR) 3. Annexures H, I, L and K to the Investigation Report – already provided as Annexures to the SCN 4. Recommended actions in IR – relevant extract containing details of Noticees in the SCN provided 5. Mail dated December 28, 2021 received from RHFL. 6. Annexure G to the Investigation Report – Policy on Demand/ Call Loan
Noticee 8 (requested for inspection vide letter dated September 20, 2022)	
27/10/2022	1. Annexures 1 to 13 to the SCN dated July 29, 2022 2. Copy of Investigation Report (IR)

38. Copies of following documents sought by Noticee 8 were provided to him vide mail dated November 09, 2022.

- 38.1. Copy of submissions of Ms Deena Asit Mehta
- 38.2. Copy of submissions of Gautam Bhailal Doshi
- 38.3. Copy of submissions of Ravindra Sudhakar
- 38.4. Copy of Annexure I to the IR

38.5. Copy of summons dated December 03, 2021 to Ravindra Sudhalkar

39. Details of Noticee-wise submissions made and hearings conducted are provided in the table below.

Noticee Name	Date of submissions	Date of Hearing scheduled	Appeared for Hearing
Noticee 1 – Jai Anmol Ambani	April 03, 2023; July 31, 2023; December 26, 2023	March 02, 2023	No
		April 11, 2023	No
		May 02, 2023	Yes
Noticee 3 – Lt. Gen. Syed Ata Hasnain (Retd.) Noticee 4 – Deena Asit Mehta Noticee 5 – Gautam Bhailal Doshi	May 02, 2023	December 16, 2022	No
		March 06, 2023	No
		March 20, 2023	No
		April 19, 2023	No
		May 02, 2023	Yes
Noticee 6 – Parul Jain	April 18, 2023 ; May 02, 2023	December 16, 2022	No
		March 06, 2023	No
		March 20, 2023	No
		April 19, 2023	No
		May 02, 2023	Yes
Noticee 7 – Krishnan Gopalakrishnan	October 19, 2022; February 13, 2023	December 16, 2022	No
		January 11, 2023	No
		February 06, 2023	Yes
Noticee 8 – Raj Kumar M	November 19, 2022 January 18, 2023	December 16, 2022	No
		January 11, 2023	Yes

40. Vide email dated January 11, 2023, Ms. Parul Jain (Noticee 6), CS and Compliance officer of RHFL, informed that Noticee 2, Mr Padmanabh Vora has deceased on August 05, 2022. In this regard, death certificate of Mr Padmanabh Vora, dated August 08, 2022 was also submitted.

Noticee 7

41. Vide letter dated October 19, 2022, Noticee 7 submitted his reply to the SCN. The main contentions are summarized below.

41.1. Noticee 7 has not violated any of the provisions set out in the SCN.

41.2. Noticee 7 is a qualified CA and has experience of more than 28 years in finance & accounting, risk & underwriting. He joined RHFL as CRO in November, 2016. He submitted his resignation on August 23, 2018 and ceased to be CRO of RHFL from November 20, 2018.

41.3. Following documents have not been provided to Noticee 7 for inspection. In this regard, he also relied upon and quoted from the judgement of Hon'ble Supreme Court in the matter of T. Takano vs. SEBI in Civil Appeal Nos. 487-488 of 2022.

- Investigation Report along with all the annexures – portions not relevant to the matter have been redacted and hence, not provided.*
- Copy of the agenda and entire minutes of the board meeting held on April 24, 2017*
- Copy of the agenda and entire minutes of the board meeting held on January 20, 2017*
- Copy of the minutes of the meeting of credit committee for financial year 2018-19*
- Annexure B, C of the Investigation Report – NHB Letters to SEBI – Not relevant and relied upon in the SCN*

- 41.4. SEBI has alleged Noticee 7 to be part of the credit committee and also liable for violation of SEBI Act, 1992 and SC(R) Act, 1956, just because Noticee 7 was CRO of RHFL.
- 41.5. The SCN lacks specific findings of default against the obligations of Code of Conduct. In this regard, Noticee 7 quoted and relied upon the judgement of Hon'ble Supreme Court in the case of Commissioner of Central Excise, Bangalore v. Brindavan Beverages Pvt. Ltd. and Ors. and also on the judgement of Hon'ble SAT in the matter of Dhanalakshmi Bank Ltd.
- 41.6. Sections 21 and 23H of SC(R) Act, 1956 are not attracted in the present case. Section 21 of the SC(R) Act, 1956 is only applicable where "securities are listed on the application of any person" and such person does not comply with the listing agreement with the stock exchange. In the present case, Noticee No. 7 is not involved in any manner whatsoever insofar as it relates to listing of RHFL. There is no listing agreement entered into by Noticee No. 7 with the stock exchange for listing of securities of RHFL.
- 41.7. As four years have elapsed since the occurrence of the events in 2018, there has been an inordinate and unconscionable delay in the issuance of the SCN and for completion of adjudication proceedings. In this regard, Noticee 7 relied and quoted on the judgement of Hon'ble SAT in the matter of Rajeev Bhanot and Ors. and also in the matter of Mr Rakesh Kathotia.
- 41.8. Noticee No. 7, during the investigation period, was the CRO of RHFL where his role was primarily to define the credit policies, monitor the implementation of the credit policy by the Credit team, ensure implementation of the CAD (Credit Delegation Authority), and monitor performance of the loan portfolio quality and report the performance thereof to the Risk Management Committee.
- 41.9. For all high-value cases over Rs. 5 crores, approvals were centralized at corporate office. The Central Risk Team consisting of expert underwriters prepared the CAMs with inputs from local credit teams, double-checking

eligibility assumptions and capturing risks and mitigants and deviations. These CAMs were then evaluated by the NCM and the CRO and Business Heads of RHF. The risks and mitigants of the cases were presented to the Group CCRO (Chief Credit Risk Officer of holding company viz. RCL).

- 41.10. On resolution of queries to the satisfaction of Group CCRO of RCL and incorporating the conditions, if any, insisted by him, the case would be presented to the Credit Committee comprising (1) CEO of RHF and (2) Director of RHF (being Group CFO of holding company RCL). Their inputs were taken to incorporate additional sanction conditions in the credit approval memos, and then submitted to the Credit Committee for obtaining their approval to the loan application.*
- 41.11. There is nothing on record to show that Noticee 7 did not comply with either the Demand/ Call loan policy or the RHFL Code of Conduct. The Demand / Call Loan Policy dated November 1, 2018 cannot be made applicable to the GPCL loans approved by Noticee 7, as he ceased to be CRO wef November 11, 2018 and had no role to play in the loan disbursal process.*
- 41.12. The Demand/ Call Policy, dated November 1, 2018, and relied upon in the SCN does not specify the manner in which a demand loan is supposed to be approved by a CRO. The Demand Policy states that "The MOP shall be read in conjunction with all other policies issued for RHF, as applicable." The SCN does not state whether other policies, as applicable to GPCL loans, have been considered and examined, and whether violation(s) of any obligation under the other policies applicable to the GPCL loans approved by Noticee No. 7 has been established. The policy applicable to the GPCL loans advanced during the SEBI investigation period of 2018-19 was, in fact, the policy applicable to Construction Finance. The GPCL loans approved by Noticee No. 7 in the capacity of CRO during his tenure are squarely covered by the RHF Construction Finance policy contained in the Circulars dated August 1, 2017,*

- and September 5, 2017, and not by the revised Construction Finance Policy dated November 1, 2019, or the Demand / Call policy dated November 1, 2018.*
- 41.13. In the case of GPCL loans proposed by the CFO of Reliance Capital Limited (i.e., Mr. Amit Bapna, who was also a Director of RHF), these steps were not followed in many instances. Accordingly, the deviations from the existing policy were highlighted in the CAMs and were approved by the CEO of RHF, as required under the policy.*
- 41.14. Insofar as the ADA Group-referred loan proposals, the applicable deviations in the loan appraisal process were documented in the CAMs and, such loans were then approved by the RHF CEO in terms of the applicable policy.*
- 41.15. Admittedly, the loans given to ADA Group were further highlighted in all the meetings of the Board appointed Risk Management Committee comprising of Independent Directors. The nuances of the loans were discussed in the meeting as these were very high loan amounts as compared to the loan amounts of the routine third party construction funding transactions. The Risk Management Committee discussions were conducted with the knowledge that these GPCL were to ADA Group, and deviations were noted as per policy and approved by the CEO and the Group CCRO / Group CRO of RCL.*
- 41.16. The CRO of RHF, i.e., Noticee No. 7, signed as “recommended by” and not “approved by”, which is clearly indicative of the fact that Noticee No. 7 as CRO was not the approving authority for the said loans. It is submitted that the CRO only evaluates the proposal(s) and recommends it to the approving authority.*
- 41.17. SEBI has not provided for the CAMs of the loans advanced to non-ADA Group cases. Noticee No. 7 is severely handicapped in establishing proof of his compliance with the applicable loan policies and credit authority delegation. Examination of the CAMs of arms-length loan proposals of third parties (non-ADA group GPCL cases) will prove that the applicable process was followed rigorously and diligently by Noticee No. 7 in his capacity as CRO.*

- 41.18. Noticee 7 was not part of the Credit Committee – Other than the Board Resolution dated April 24, 2017, there is nothing brought on record by the SEBI to prove that Noticee No. 7 was part of the Credit Committee.
- 41.19. On the contrary, the manner in which the CAMs are signed shows that the Credit Authority Delegation being followed is pursuant to the Board Resolution dated January 20, 2017, wherein it is categorically stated that the Credit Committee consisting of the CEO and one director of RHF shall be the approving authority for loans more than Rs. 20 crore and less than Rs. 50 crores, and a high-ticket Credit Committee consisting of the CEO and one Independent Director shall be the approving authority for loans higher than Rs. 50 crores.
- 41.20. Noticee 8 has also submitted in his statement recording that he was also not part of the credit committee.
- 41.21. Another fact which requires examination is that during the period of April 2018 till November 2018, Noticee No. 7 only approved 10 loans (totaling to Rs. 702.11 crore) from a total of 49 loans approved during the same period. From October 19, 2018 till November 20, 2018, there were 10 loans (totaling to Rs. 848.95 crore) which had not been signed by Noticee No. 7, neither as a recommender nor as an approver.
- 41.22. Mr. Rajkumar Muthu (Noticee No. 8) was appointed as the CRO on May 15, 2019, after a prolonged gap of almost six months. Thus, majority of the GPCL loans which are identified by the SEBI in the present proceedings were approved/ disbursed when there was no CRO in RHF. If the CRO had been a core member of the Credit Committee, it does not stand to reason that the position of CRO would be kept vacant for a long period from November 2018 to May 2019, and that the approval of loans would continue as earlier, despite the absence of one of the members of the Credit Committee. This further proves that CRO was not part of the so-called Credit Committee and, in fact, the Credit Authority Delegation being followed was in line with the Board

Resolution dated January 20, 2017, and not the Board Resolution dated April 24, 2017, as is asserted by the SEBI.

- 41.23. In any event, the loans approved by Noticee No. 7 only amount to Rs. 702.11 crore out of a total of Rs. 8470.65 crore loan disbursed. This constitutes to only 8.3% of the total loans disbursed during the relevant period. From the 10 loans approved by Noticee No. 7 as the CRO, the deviations applied in the appraisal process were documented clearly in the CAMs and were further approved by the CEO in compliance with the Board approved policy norms. This demonstrates that Noticee No. 7 had approved loans, subject to deviations documented thereon, in good faith and only after conducting due diligence and proper application of mind. This clearly establishes that Noticee No. 7 gave no paper approvals. Thus, a charge that Noticee No. 7 failed in its duty of not following due loan approval process is untenable and deserves to be set aside.*
- 41.24. Regulations 17(5) and 26(3) of LODR Regulations, 2015 are not applicable to Noticee No. 7. Regulation 17(5)(a) casts an obligation on the board of directors to lay down a code of conduct for all the members of the board as well as senior management. Regulation 26(3) casts an obligation on members of the board of directors and senior management personnel to affirm compliance to the code of conduct on an annual basis. In the present case, RHFL has not taken any affirmation of compliance from Noticee No. 7, who SEBI alleges to be part of the senior management. This indicates that RHFL did not consider Noticee No. 7 as part of senior management of the Company.*
- 41.25. SEBI has proceeded against Noticee No. 7 only on account of him alleged to have been senior management personnel at the relevant time under the principle of vicarious liability. In this regard, Noticee 7 relied upon the judgement of Hon'ble Supreme Court in the matter of Sunil Bharti Mittal v. Central Bureau of Investigation and also Hon'ble SAT in the matter of Rahul Shah v. SEBI.*

41.26. Noticee 7 has not made any financial gains or losses. It is the first time when Noticee 7 is receiving a notice from a regulator. None of the alleged violations have resulted in any harm or loss caused to the securities market.

42. Noticee 7 appeared for the hearing scheduled on February 06, 2023 along with its authorized representative (AR). The AR reiterated the submissions already made vide mail dated October 19, 2022. During the course of hearing, Noticee 7 was asked to submit following documents.

- 42.1. Details of GPCL loans approved by Noticee 7
- 42.2. Credit policies defined by Noticee 7
- 42.3. Details of GPCL loans which were recommended by Noticee 7
- 42.4. Loans approved by Noticee 1, screenshots of which were shown by Noticee 7 during the hearing

43. Noticee 7 requested for time till February 13, 2023 to submit the details sought from him. Vide letter dated February 13, 2023, Noticee 7 made additional submissions, which are summarized below.

- 43.1. *10 GPCL loans amounting to an aggregate disbursal amount of Rs. 702.11/- crore were approved by Noticee 7 in the capacity of the Chief Risk Officer of Reliance Home Finance Limited disbursed from the period of April 26, 2018 to June 27, 2018.*
- 43.2. *The aforementioned loans were approved by Noticee No. 7 along with Mr. Ravindra Sudhalkar (CEO of RHF) and Mr. Amit Bapna (Director of RHF and Group CFO of Reliance Capital). Noticee 7 also provided the details of those loans.*
- 43.3. *Noticee No. 7 had defined only the Demand / Call Policy of RHF dated November 1, 2018, wherein he, as CRO, had signed as “proposer” of the said policy.*

- 43.4. *GPCL loans to Accura Production Private Ltd. and Visa Capital Partners, respectively, were forwarded for a specific approval of Mr. Jai Anmol Ambani (Director of Reliance Capital Limited) by one Mr. Bhupal Singh of RHF, and subsequently approved by Mr. Jai Anmol Ambani. Copy of the screenshots displayed by Noticee 7 during the hearing were also provided along with the additional submissions.*
- 43.5. *In the AC and RMC meetings held on August 07, 2018 and in April 2018, Noticee 7 had attended the meetings as an “invitee”, as he was not member of any committee. Noticee No. 7 submits that during the meetings of the RMC and the Audit Committee for FY 2018-19, which he attended as an “Invitee”, a list of cases comprising top exposures was tabled and discussed under the Item ‘Risk management and Internal Audit Update’ as is evident from the Minutes of the Meetings. A list of cases comprising mostly of GPCL loans were brought before the Committee as these loans were high ticket exposures and as such demanded careful consideration of the members and attendees. The purpose of making a presentation on GPCL loans and their key risk indicators was to bring to light the borrowers’ profile, nature of loans, end use, current performance, credit risks, operational risks, etc.*
- 43.6. *Noticee 7 had also brought the deviations recorded by him in the CAMs of GPCL loans to the attention of the Committees. Noticee No. 7 acted to make it clear to the Committees that the GPCL loans were approved by him subject to deviations recorded therein and that certain GPCL loans pose certain credit and operational risks to the portfolio of RHFL.*

Noticee 8

44. Vide letter dated November 19, 2022 submitted its reply to the SCN, which is summarized hereunder.
- 44.1. *Noticee 8 was the Chief Risk Officer of RHFL during the period 15.05.2019 to 04.11.2019 during which time he was part of the senior management of the*

Company. As Noticee 7 resigned with effect from November 20, 2018, the position of CRO remained vacant, till Noticee 8 was inducted into 'Senior Management' and appointed as CRO.

- 44.2. During the IP, Noticee 8 was Head of Construction Finance and Credit Risk, though a member of the credit committee. However, he was not a member of any leadership council from November 2018 onwards.*
- 44.3. The SCN has incorrectly characterized his position as part of Senior Management of RHFL as per the Code of Conduct. The two organograms provided by Mr. Ravindra Sudhalkar vide his letter dated 22.12.2021 set out the manner in which operational reporting was carried out and does not truly reflect the members of the 'Senior Management' of RHFL as set out in the code of conduct prescribed by the board of directors in compliance with the provisions of the SEBI (LODR) Regulations, 2015. While the position of CRO lay vacant from November 2018 to May 2019, hierarchy of reporting was changed only to solve operational difficulties.*
- 44.4. The aforementioned code of conduct (which had been approved by the Board of Directors of RHFL at their meeting dated 08.09.2017) defines the term "Senior Management" as follows:*
"For the purposes of this Code, the term "Senior Management" shall mean officers/ personnel of this Company who are members of its core management team excluding the board of Directors. This comprises of all members of the Management one level below the Executive Director(s), if any, including all Functional Heads."
- 44.5. Given that the IR and the SCN categorically state that he was the CRO wef 15/05/2019, he cannot be held liable for the acts done by the 'Senior Management' prior to his inclusion in the same.*
- 44.6. While the SCN mentions clearly under paragraph 24 that the board resolution passed by the board of directors of the Company held on 24.04.2017 approved the delegation of authority to the "Credit Committee" comprising of*

the CRO, CEO and one Director of the Company, but paragraph 25 of the SCN is contradictory to the same and alleges that Noticee 8 was part of the Credit Committee despite not being the CRO, CEO or a Director of the Company during the period of investigation. Therefore, no responsibility can be attributed to him for any decisions taken by the Credit Committee for its alleged role in the present matter.

- 44.7. While the SCN attributes liability to Noticee 8 for being part of the “approval process” which was limited to the “Senior Management” of RHFL, none of the numerous approval/disbursement forms cited under Annexure - 6 of the SCN bear his name or signature under the head “Approved by”. On the contrary, it can be seen that his role in the process of disbursement of the GPCL loans was limited to recommendations only and that members of the Credit Committee retained the authority to approve and disburse the said loans.*
- 44.8. Noticee 8 was acting solely under the instructions of the Senior Management of the Company in his role as an employee. The contents of paragraph 26 of the SCN do not apply to him since he was not a part of the process for “approving loan to GPCL borrowers and responsible for deficiencies observed in the loan approval process.”*
- 44.9. Approval of the loans was done by members of the “Credit Committee/ Leadership Council” as seen from the loan applications and Credit Approval Memos and which Credit Committee did not include him in any manner;*
- 44.10. During the investigation, in the reply of RHFL dated 28.12.2021, the representative of RHFL stated that credit committee consisted of the CRO, CEO and one Director of the Company;*
- 44.11. Under question 34 posed to Mr. Sudhalkar at the time of statement recording, in relation to the process of approving loans of GPCL in RHFL, the fact that approvals were made by the Credit Committee whereas recommendations were made by the credit team (of which he was a part of and which*

corresponds with the contents of Annexure – 6 to the SCN) has been established.

- 44.12. Upon a cursory reading of Regulation 17 (5) (a), it is clear that the said regulation only casts a duty on the board of directors to “lay down a code of conduct for all members of board of directors and senior management of the listed entity”. In the present case, notwithstanding the fact that he does not form a part of the board of directors or the senior management of RHFL, since the said duty has been carried out by the board of directors at its board meeting on 08.09.2017 and he cannot be said to be liable under the provision in any manner.*
- 44.13. The fact that Noticee 8 was not a part of the Senior Management of RHFL is further proved by the fact that he has never provided and have never been asked to provide such an affirmation during the course of his employment with RHFL by the compliance officer of the Company or by any other person.*
- 44.14. The SCN does not specifically state why and under what circumstances he has acted in violation of Section 21 of the SC(R) Act, 1956.*

45. Noticee 8 appeared for the hearing scheduled on January 11, 2023 through his authorized representative (AR). The AR reiterated the submissions already made vide mail dated November 19, 2022. The AR was asked to submit documents related to loan applications, which were recommended by him, other than those covered in investigation. The AR sought time till January 18, 2023 for making additional submissions and providing the details as sought from him by the undersigned.

46. Vide letter dated January 18, 2023, Noticee 8 made additional submissions, which are summarized as under.

- 46.1. *All the documents of the loan applications approved by Noticee 8 in the capacity of National Credit Manager at RHFL are not in his possession and are with RHFL, as he has adhered to RHFL's internal policies of confidentiality.*
- 46.2. *Noticee 8 submitted that none of the loan applications and corresponding disbursements which formed the subject matter of the investigations pursuant to which the SCN was issued, were approved by him. The same can be inferred from the Annexure 6 to the SCN.*
- 46.3. *Almost all loan application prior to the resignation of the then CRO of RHFL (Noticee No. 7 to the SCN) were approved by the Chief Credit Risk Officer ("CCRO") of the Company. Despite being part of the Credit Committee, which was entrusted with the authority to approve loan applications for amounts of more than Rs. 5 Crores, the role of the CRO of the Company was limited to recommending loans and not approving them and which approvals were primarily given by the CCRO.*
- 46.4. *Following the Board meeting dated 11.02.2019 wherein the Board of Directors decided to not entertain any further GPCL loans, all loan applications were directly approved by the group Chairman, Mr. Anil Ambani. Therefore, at no point during the investigation period (prior to the resignation of Noticee No. 7, or after resignation of Noticee No. 7 due to which Noticee 8 was reporting to the CEO for operational convenience) were any loan applications specified under Table A (and seen under Annexure 6 to the SCN) above were approved by him.*
- 46.5. *As stated by the then Executive Director and CEO of RHFL, Mr. Ravindra Sudhalkar in his statement given to SEBI (recorded under Section 11C(5) of the SEBI Act) under Query No. 34: "Credit Team after analyzing the credibility of the client on the basis of various parameter viz. current income, future income, overall reputation of the client, net-worth, overall group comfort etc. would recommend the case to the credit committee for approval. Credit team was reporting to the CRO and CRO was reporting to me." Therefore, during*

the investigation period and in relation to all loans forming part of the investigation, Noticee 8, as a representative and head of the credit team, reported to the CRO and passed on the loan applications to the credit committee for their consideration. This further attests to the fact that he was never a part of the Senior Management of RHFL prior to his appointment as a CRO of RHFL in May 2019.

Noticee 1

47. Vide letter dated April 03, 2023, Noticee 1 submitted his reply to the SCN. The main contentions are summarized below.

- 47.1. *Noticee 1 was appointed as additional director of RHFL with effect from April 24, 2018. He was thereafter appointed as non-executive director at the AGM held on September 18, 2018. He resigned from this position on May 31, 2019. Thus, he was not in charge of the operations of RHFL and no specific allegation in this regard has been made out in the SCN.*
- 47.2. *During the IP, Noticee 1 attended four Board Meetings of RHFL, held on April 24, 2018, June 04, 2018, August 07, 2018 and November 01, 2018. There is no observation in the SCN which points out anything that transpired in these four meetings that would bring Noticee 1 under the purview of regulatory intervention.*
- 47.3. *There is no observation which demonstrates that Noticee 1 enjoyed any power to direct Mr Sudhalkar to act in a particular manner on any matter. Mr Sudhalkar worked under the overall superintendence and direction of the Board of Directors of RHFL, which had given him powers as CEO. Therefore, generic organogram cannot be relied upon to make allegation for penal intervention.*
- 47.4. *Noticee 1 has already explained in his statement recordings that there was only 'dotted line reporting' of Mr Sudhalkar to Noticee 1, merely as non-executive member of board of directors. This means, there was no 'solid line*

reporting', which means direct and formal reporting relationship. 'Dotted line reporting' happens where the relationship is informal and flexible in how the two individuals work together. It is more restricted and limited to specific projects/ assignments.

- 47.5. Noticee 1 has recently graduated from university and is being groomed by Mr Ravindra Sudhalkar, who possessed immense knowledge and experience in the financial sector.*
- 47.6. As per Annual Report 2018-19 of RHFL, Noticee 1 was not named as person exercising "control" over RHFL. Thus, the SCN has failed to demonstrate how Noticee 1 enjoyed any legal right or power to control the management or policy decisions of RHFL. Merely by virtue of being a director on the board of RCap and receiving information and training from the CEO of RHFL cannot ipso facto mean that Noticee 1 was at helm of the affairs of RHFL or was a person responsible for taking strategic decisions for the company.*
- 47.7. The Board of RHFL was o responsible for day to day affairs of RHFL, such responsibilities are vested with the professional management. The Board cannot be expected to review each and every loan application or sanction.*
- 47.8. Noticee 1 provided the list of brief topics discussed before the Board of RHFL at the four board meetings, to demonstrate that there was no apparent reason for Noticee 1 to seek explanations or clarifications with respect to the purpose of GPC lending or about the manner in which due diligence was conducted by the management of RHFL prior to disbursal of loans.*
- 47.9. The steady growth in the AUM of RHFL was reasonably perceived as a positive indication and not a red flag. At the Board Meetings of RHFL attended by Noticee 1, the Gross NPA figures of RHFL that were tabled before the Board were 0.78% as of March 2018, 0.82% as of June 2018, 0.79% as of September 2018, which were healthy for a lending entity, and did not raise any red flags warranting further inquiry. Thus, it is clear that Noticee 1 has exercised*

reasonable care and diligence and has acted in good faith in his capacity as non-executive director of RHFL during his tenure.

47.10. *Noticee 1 was unaware of the guarantee given by Reliance Infrastructure Limited (RInfra) to RHFL on behalf of GPCL borrowers. There is no supporting evidence or fact present in the SCN as to how Noticee 1 ought to have been aware of such purported guarantee.*

47.11. *Noticee 1 has been alleged for violation of regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii)(3) and (6) of the LODR Regulations read with Section 21 of the SC(R) Act, 1956. However, the SCN has not demonstrated how Noticee 1 has violated these provisions and how the violations can be invoked against him.*

48. Notice 1, through his authorized representative (AR) appeared for the hearing scheduled on May 02, 2023, and reiterated the submissions already made vide letter dated April 05, 2023. The AR confirmed that all the submissions have been made and may be considered as final. Vide letter dated July 31, 2023, Noticee 1 submitted a summary of his previous submissions.

49. Vide email dated October 27, 2023, Noticee 1 was asked to provide his comments on the email communication, wherein Noticee 1 had given approval for unsecured loan of ₹20 crore to Visa Capital Partners and ₹20 crore to Accura Production Private Limited. In this regard, Noticee 1 has submitted that these emails were not in the nature of approvals provided by him, and appear to be mere acknowledgements of the receipt of the respective trail mails, having regard to professional email etiquette.

Noticee 6

50. Vide letter dated April 18, 2023, Noticee 6 made her submissions in response to the SCN, which are summarized below.

- 50.1. *Noticee 6 is CS and Compliance Officer of RHFL. She was never a part of the finance team /executive team/ business team of RHFL and was therefore not responsible for or aware of nuances pertaining to the financial transactions of the Company. Further, the obligation to carry out due diligence vested on the Chief Risk Officers. All financial transactions with respect to the Company was overseen by the relevant business teams or other teams and reported by them to the statutory auditors.*
- 50.2. *In the board meeting held on February 11, 2019, the RHFL Board issued a direction to the Company to refrain from granting any further corporate loans and the management was further asked to present a plan for compliance with NHB's requirements. It is pertinent to note that such direction was an internal direction and not an event required to be disclosed under Regulation 30 of the LODR Regulations.*
- 50.3. *The present proceedings rely heavily on the facts and allegations stated in the Interim Order dated February 11, 2022 ("Interim Order"). It is an indisputable fact that the Interim Order is pending for determination and has not attained finality. No fraud in the affairs of RHFL in relation to the general purpose corporate loans extended by it has conclusively been proved till date by means of a final order. Initiating proceedings against the Noticee during the pendency of the interim order demonstrates the pre-conceived mindset of SEBI in the instant matter.*
- 50.4. *The charges in the SCN against Noticee 6 are vague and un-specific. For instance, the SCN in Paragraph 19 states that Noticee 6 failed to provide timely and complete information to the RHFL Board, without specifying what information did the Noticee not provide to the RHFL Board. Similarly, the SCN does not even lay down any material / facts which would indicate that it was the Noticee's duty as the compliance officer of the Company to go behind the information provided by the relevant business teams and scrutinize the loan*

book of the Company, deviations from policy etc. Thus, the SCN is ought to be withdrawn immediately.

- 50.5. The SCN does not state what information was not put before the board of directors. In any event, it is significant that the duty to place minimum information before the board of directors as contained in Regulation 17 (7) read with Schedule II, Part A(I) (O) does not vest the duty to place minimum information on the compliance officer of a company. The duty is vested on the Company as a whole, and if at all, on the relevant business teams of the Company.*
- 50.6. Noticee 6 was never a part of the finance team or executive team or business team of RHFL and was therefore not aware of the financial transactions of the Company, let alone the sanctioning of any loan transactions including the corporate loans. Noticee 6 relied on information being made available to her by the relevant business teams of the Company/auditors who were privy to information pertaining to the lending activities of the Company.*
- 50.7. It is pertinent to additionally point out that, the expert Auditor, had duly audited the accounts for the financial year 2017-18 and also conducted limited review of financial results of three consecutive quarters ended December 2018. No issues pertaining to the GPCL loans were raised by PWC till February 2019 (as stated in the SCN). In fact, from the presentation it can be observed that the Auditor itself was of the view that there was no high-end risk of recoverability and loans have been given on the basis of future cash flow and/or ability to timely repay the loans by the borrowing entity.*
- 50.8. A compliance officer cannot be expected to carry out due diligence and have details of background information about the corporate borrowers or investigate into deviations in loan sanctioning process by the relevant business teams of a company. There is nothing on record to state she was aware of the background information about the corporate borrowers prior to the Auditor raising issues regarding the same.*

- 50.9. *Schedule II, Part A (I) (O) does not contemplate information in the nature of what the SCN contemplates, to be placed before the board. It cannot by any stretch of imagination, be stated that during the investigation period, the factum of GPC Lending involved any non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer, etc. Thus, the invoked provisions the violations of which have been alleged against the Noticee are wholly inapplicable in the facts of the present matter.*
- 50.10. *The SCN alleges that the Noticee failed to make disclosure of the crucial information viz the direction of the RHFL Board to not grant any further GPC Loans as required under Regulation 30(1) of the LODR Regulations to the stock exchanges. In this regard, it is submitted that the events to be disclosed pertaining to the outcome of board. meetings without determination of materiality by virtue of being mandatorily disclosable events, is contained in Para A of Part A to Schedule III of the LODR Regulations. Thus only the information required to be disclosed in aforesaid provisions is to be disclosed mandatorily. A direction by the board of directors in the nature of that referred to in the SCN does not come within any of the aforesaid categories. Being so, the allegation contained in the SCN is devoid of merits and is ought to be revoked.*
- 50.11. *Further, a bare perusal of Para B of Part A of Schedule III does not contain any event in the nature of that highlighted in the SCN.*
- 50.12. *Regulation 30(1) of the LODR Regulations requires disclosure of events which in the opinion of the board of directors, material information. This provision enables the board of directors of a company to determine if an event is material and disclose such event to the stock exchanges. Thus, it requires a suo moto cognisance by the board of a listed company of an event as a material event for the purposes of making disclosure. In the instant case, it is a fact that nowhere has the board classified its direction as a material event for the*

purposes of disclosure under Regulation 30(1) of the LODR Regulations to the stock exchanges.

50.13. The doctrine of doubtful penalisation is squarely applicable to the present case in light of the submissions made above and therefore no penalty is to be imposed against Noticee 6. In this regard, Noticee 6 relied upon and quoted from the judgement of Hon'ble Supreme Court in the case of SEBI v. Sunil Krishna Khaitan (Civil Appeal No. 8249 OF 2013). In the instant case, the benefit of doubt has to be given to Noticee 6 as she has acted as per bona fide construction of law.

51. Noticee 6 appeared for the hearing scheduled on May 02, 2023 through her authorized representative (AR). The AR reiterated the submissions already made vide letters dated April 18, 2023 and made some additional submissions, which were submitted in writing on the same day. The additional submissions sent by Noticee 6 vide letter dated May 02, 2023 are summarized as under.

51.1. The SCN, erroneously alleges that the non-disclosure of such direction, tantamounts to a violation of Regulation 30 (1) of LODR Regulations. In this regard, it is pertinent to note that the only item that deals with disclosure of information pertaining to a board meeting is contained in Para A of Part A to Schedule III of the LODR Regulations. A direction by the board of directors in the nature of that referred to in the SCN does not come within any of the categories stated in the aforesaid provisions and thus, did not warrant mandatory disclosure.

51.2. Further, it is submitted that disclosure cannot be said to have been required under any other entry, either in Para A, Para B, Para C of Part A, or under any general provision dealing with disclosure such as Regulation 30 (1), which is an enabling provision which requires information the board considers material to be disclosed, as it is settled law that if in a statutory rule or statutory notification there are two expressions used, one in general terms and the other

in special words, under the rules of interpretation, it has to be understood that the special words were not meant to be included in the general expression. It is also settled law, that it can be said that where a statute contains both a general provision as well as specific provision, the latter must prevail [CTO v. Binani Cements Ltd., (2014) 8 SCC 319].

- 51.3. *Being so, in the instant case, the direction given in the board meeting cannot be stated to be required to be disclosable under Regulation 30 (1) of the LODR Regulations or under any other entry in Para A, Para B, or Para C of part A of the LODR Regulations, as there is a provision specifically dealing with information pertaining to board meetings that have to be disclosed.*
- 51.4. *At this juncture, and without prejudice to the above, it is to be noted that SEBI's charge in the SCN does not pertain to any drop in the ratio of housing loans to non-housing loans under permissible limits, but only pertains to nondisclosure of the direction of the board as evident from Para 17 of the SCN. At this juncture, it is not open to SEBI to traverse beyond the charge set out in the SCN to enquire, as was done in the hearing, as to whether or not the drop in the ratio of housing to non-housing loans was a separately disclosable event. Any such modification would be in gross violation of the principles of natural justice and settled law in this regard. [Mangalam Drugs & Organics Limited vs. SEBI, Appeal No. 445 of 2020, decided on June 27, 2022]*

Noticees 3, 4 and 5

52. Noticees 3, 4 and 5 had not submitted their replies to the SCN till May 02, 2023. They appeared for the hearing scheduled on May 02, 2023 through an authorized representative (AR) and made oral submissions during the course of hearing. They submitted their written replies to the SCN vide mails dated May 02, 2023. Their main contentions are summarized as under.

- 52.1. *The SCN stems from the facts of the Interim Order Cum Show Notice dated February 11, 2022 ("Interim Order"), which is pending determination before*

SEBI. It was submitted that the SCN has been issued prematurely qua Noticees 3, 4 and 5. They have made the submissions on demurrer, and while assuming without admitting that there were indeed some irregularities/violations in relation to the GPCL lending activities of the Company.

- 52.2. Noticee 3 resigned as a director of RHFL on October 23, 2019 on account of his unavailability, and difficulty in tending to the affairs of the Company due to various professional and personal pursuits that involved considerable travel.*
- 52.3. Noticees 3, 4 and 5 were not involved in day-to-day functions of the Company. Being a member of the Audit Committee, the Noticee's role was limited to overview of the Company's financial reporting process. As a matter of practice, the members of the Audit Committee would get a presentation from the statutory auditor including but not limited to the financials and the transactions of the Company prior to considering the financials of a quarter and prior to considering the annual accounts. During the first 3 quarters of the Financial Year 2018-2019, no red flags were highlighted by the auditors with respect to the business of the Company. In fact, to the contrary, the presentations of the Auditor mentioned that they have received full cooperation from the management and have concluded there was no illegal acts/fraud/unusual transactions in the company. There was no mention of GPCL loans for the first 3 quarters by the Auditor.*
- 52.4. In the presentation made for the quarter ending March 2018, the Auditor confirmed that they have received full cooperation from the management. For the quarter ending June 2018, the presentation did not mention any details regarding the GPCL. In fact, in the said presentation, the Auditor confirmed that there were no illegal acts/fraud/unusual transactions in the Company. In the presentation dated November 1, 2018, for the quarter ending September 2018, while giving the figures for the top 10 borrowers, the Auditor expressly confirmed that there is no high-end risk of recoverability on such loans. No red*

flags were raised by it as to the financial status of the top 10 borrowers. Apart from mentioning about a customer related fraud for which full provision was made in books of accounts, it was confirmed by the Auditor in its presentation, that there was in fact no illegal acts/fraud/unusual transactions.

- 52.5. It is significant that though in the presentation for the quarter ending September 2018 the Audit Committee was updated regarding certain corporate credits granted by the Company, no red flags were raised by the Auditor. On the other hand, it was confirmed then that there was no high-end risk of recoverability. It is humbly submitted that mere grant of corporate credit, where there was no high end risk of recoverability, could have never raised any suspicion in the mind of the Noticee or that of any reasonable prudent man, as granting of corporate loans as stated earlier, was a permissible activity for a housing finance company.
- 52.6. On February 11, 2019, for the first time, in the presentation for the quarter ending December 2018, amongst other things, it was pointed out to the Noticee that for certain borrower entities, the financial parameters such as profits, capital and reserves, assets etc. was significantly less than the loan amount sanctioned to them.
- 52.7. Admittedly, the SCN itself observes that in the RMC, Audit Committee and Board meetings dated November 1, 2018, it was conveyed to the members including Noticee 3, 4 and 5 that there were no defaults and that none of the GPC loans were classified as NPA by the Company. Being so, the Noticee had no reason to suspect any irregularity as is alleged by SEBI in the granting of the loans by the Company.
- 52.8. SCN suffers from inherent contradictions - The SCN itself, wherein it on one hand records that details pertaining to the GPC Loans and deviations in relation to the same was brought to the notice of the members of the board including the Noticee on February 11, 2019, and on the other, alleging that

Noticees 3, 4 and 5 did not check such activity or raise any concern in prior quarters, renders the SCN incongruous and unsustainable

- 52.9. *It is submitted that the Auditor had duly audited the accounts for the financial year 2017-18 and also conducted limited review of financial results of three consecutive quarters ended December 2018. No issues/red flags pertaining to the GPC Loans were raised by the Auditor till February 2019 with the Noticee. Had the Auditor raised a red-flag in relation to GPC Loans, the Noticee would have had done the needful to assuage and mitigate/rectify such issues at such juncture. Noticees 3, 4 and 5 cannot now be faulted for relying on an expert independent organization. Similarly, it is pertinent to note, that the Auditor was under a standing instruction to check loan transactions and their compliance with guidelines and policies. Not once was a concern raised that there were any deviations from guidelines/policies at any time prior to February 2019.*
- 52.10. *Even the Companies Act, 2013 under Section 177(5) and (6) confers the discretion on audit committee members to rely on auditors. Further, with regards to internal control systems, KPMG in the meeting held on February 11, 2019, expressed satisfaction on the internal controls.*
- 52.11. *As a member of the RMC, Noticees 3, 4 and 5 did not observe any red flags in the presentations made to them. The SCN has brought out that in the quarter ending June 2018, the top ten exposures were brought to the notice of the RMC, wherein 8 of the top 10 exposures were termed as 'General Purpose Corporate Loans' ("GPCL"). However, such fact is by no means germane to SEBI's allegation as GPCL were permitted by the NHB and was as per a board approved policy of the Company in place since 2009.*
- 52.12. *. It was submitted that it is a settled legal principle that the position of an Independent Director is very different from a Whole Time Director or an Executive Director. The Independent Director is neither expected to set out on an independent probe of the factual assertions made to him by the management nor expected to suspect every assertion or representation made*

by the management of the Company. This is even more particularly so, when there is nothing which would put him on notice of any irregularity or illegality. The role of the Independent Director is to bring an objective independent approach to the board and guide the company. An Independent Director cannot and ought not to be blamed for an alleged fraud or irregularity, especially when he has no knowledge whatsoever of the same.

52.13. The moment the huge exposure of GPC lending/drop in the ratio of housing loans/deviations in loan sanctioning was brought to the notice of Noticees 3, 4 and 5, they immediately directed the Company to not grant any further corporate loans and bring back the prescribed ratio between housing and non-housing loans as per the directive of NHB. It is therefore submitted that the Noticees have discharged their obligation and duty as members of the Audit Committee.

52.14. The breach of the NHB prescribed ratio took place only in the fag end of the Financial Year 2018-19. There was no breach of the NHB prescribed ratio prior thereto. The Noticees not only questioned but also issued immediate directions, as a part of the Board/Audit Committee, to the internal as well as statutory auditors to check documents of all loans and ensure compliance with the Company's policies.

52.15. The provisions of the LODR the violation of which have been alleged, are Regulation 17 (9) (b), 18 (3) read with Clause A (1), (4), (5), B (1) (2) under Part C of Schedule II, Regulation 21 (4) read with Part D of schedule II, Regulations 25 (4) (c), Regulation 25 (5), all read with Section 21 of the Securities Contracts Regulation Act, 1957, are wholly inapplicable, for the reasons stated below.

- Regulation 17(9)(b) of SEBI LODR Regulations, 2015 – There is no allegation that the board of directors did not frame or implement a risk management plan. The SCN further does not allege that such plan was not monitored by the board of directors.*

- *Regulation 18 (3) read with Clause A (1), (4), (5), B (1) (2) under Part C of Schedule II of SEBI Regulations, 2015 – Noticees 3, 4 and 5 believed, given the emergent facts of the matter and the knowledge available to him, that the financial statements were true and accurate. Even the factum of onward lending by certain borrowers, as well as the fact that it was noticed that the end use of borrowings from the Company included repayment of financial obligations of some of the group companies was disclosed. Further, Noticees 3, 4 and 5 believed adequate provisioning was done as per most prudent practice. NPA provisioning was made for all loans of borrowers who had more than one loan outstanding and due. Since a large portion of the GPC Loans was not due for repayment given that their tenure had not ended, standard ECL provisions were made for such loans. No violation of the provisions quoted can thus be found against Noticees 3, 4 and 5. Clause A (1) and Clause A (4) are not applicable to the Noticees 3, 4 and 5. As for Clause A (5), Noticees 3, 4 and 5 in fact reviewed with the management, the quarterly financial statements until their resignation before submission to the board for approval.*
- *Regulation 21(4) read with Part D of Schedule II of SEBI LODR Regulations, 2015 - The SCN does not allege that Noticees 3, 4 and 5 did not perform their duties as contained in Part D of Schedule II. All policies and frameworks were in fact in place. The RMC also monitored such policies and frameworks effectively from time to time.*
- *Regulation 25(4)(c) of SEBI LODR Regulations, 2015 - Regulation 25 (4) pertains to the meeting of independent directors contemplated in Regulation 25 (3) of the LODR Regulations. Regulation 25 (4), lists down the items to be discussed/considered in such meeting of independent directors. The facts contained in the SCN do not allege that Noticees 3, 4 and 5, being independent directors, did not, in the meeting of independent directors, assess the quality, quantity and timelines of flow of information*

between the management and the board that was necessary for the board to effectively and reasonably perform their duties. The provision is thus, wholly irrelevant and inapplicable.

- *Regulation 25(5) of SEBI LODR Regulations, 2015 - Regulation 25 (5) in fact negates the allegations contained in the SCN against Noticees 3, 4 and 5. The SCN itself states that complete facts were placed before the board only in February 2019. Prior thereto, while the factum of certain GPC Loans being a part of top ten exposures was notified to the RMC, the fact of deviations, identity of GPC borrowers, onward lending by such borrowers etc. was not known to Noticees 3, 4 and 5. Liability cannot thus be attributed to Noticees 3, 4 and 5 as totality of facts was not within their knowledge. Noticees 3, 4 and 5 cannot be held liable for the acts of the listed entity. In any event, the SCN further does not allege that Noticees 3, 4 and 5 connived/consented to the GPC Lending of the Company. The loans were furthered by the credit teams/business teams and the Credit Committee.*

52.16. Noticee 5 was not an independent director, but only a non-executive director of RHFL. Hence, Regulation 25(4)(c) and 25(5) of LODR Regulations, 2015 are not applicable to Noticee 5.

52.17. Noticees 3, 4 and 5 requested that SEBI must take into account the mitigating factors specified in section 23J of the SC(R) Act, 1956, while levying any penalty. In this regard, they relied upon the judgement of Hon'ble Supreme Court in the case of Adjudicating Officer, Securities and Exchange Board of India v. Bhavesh Pabari, (2019) 5 SCC 90.

53. Vide mail dated March 26, 2024, Noticee 7 was informed that his settlement application has been rejected. Consequently, he was provided another opportunity of hearing in the matter was granted to him. Vide e-mail dated April 10, 2024,

Noticee 7 informed that he does not require another hearing, as his submissions are already on record.

54. Vide email dated June 10, 2024, the Noticees were advised to make further submissions, if any, by June 21, 2024. No response was received from any of the Noticees in this regard.

ISSUES FOR CONSIDERATION, EVIDENCE AND FINDINGS

55. After perusal of the material available on record, the following issues arise for consideration.

ISSUE I: Whether Noticee 1 has violated provisions of Regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii) (3) & (6) of SEBI (LODR) Regulation, 2015 r/w Section 21 of SC(R) Act, 1956? Whether Noticees 2, 3, 4 and 5 have violated the provisions of Regulation 17(9) (b), 18(3) read with Clause A (1), (4), (5); B((1)(2) under Part C of Schedule II , 21(4) read with Part D of Schedule II, regulations 25(4) (c), 25(5) of the SEBI (LODR) Regulations, 2015 r/w Section 21 of SCRA, 1956? Whether Noticee 6 has violated the provisions of Regulation 6(2)(a) and (c) and 17(7) read with Schedule II Part A ((I),O), regulation 30(1) of SEBI (LODR) Regulations, 2015 read with Section 21 of SC(R) Act, 1956? Whether Noticee 7 and 8 have violated the provisions of Regulation 17(5)(a) and 26(3) of SEBI (LODR) Regulations, 2015 read with section 21 of SC(R) Act, 1956?

ISSUE II: Does the violation, if any, on part of the Noticee attract penalty under Section 15HB of the SEBI Act, 1992 and Section 23H of SC(R) Act, 1956?

ISSUE III: If so, how much penalty should be imposed on the Noticee taking into consideration the factors mentioned in Section 15J of the SEBI Act, 1992?

56. Before moving forward, it is pertinent to refer to the relevant provisions of LODR Regulations and SC(R) Act, 1956, which read as under:

SEBI LODR Regulations, 2015

Principles governing disclosures and obligations.

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

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

(i)..

(ii) Key functions of the board of directors-

(1)..

(2)..

(3)..

(4)..

(5)..

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

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

(8) Overseeing the process of disclosure and communications.

(iii) Other responsibilities:

(1)..

(2)..

(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)..

(5)..

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

Compliance Officer and his Obligations.

6. (2) *The compliance officer of the listed entity shall be responsible for-*

(a) *ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.*

(b) ..

(c) *ensuring that the correct procedures have been followed that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity under these regulations.*

Board of Directors.

17. (5)(a) *The board of directors shall lay down a code of conduct for all members of board of directors and senior management of the listed entity.*

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

(9) (b) *The board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity.*

Audit Committee.

18. (3) *The role of the audit committee and the information to be reviewed by the audit committee shall be as specified in Part C of Schedule II.*

Risk Management Committee

21. (4) *The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit*

Obligations with respect to independent directors

25. (4) *The independent directors in the meeting referred in sub-regulation (3) shall, inter alia-*

(a) ..

(b) ..

(c) assess the quality, quantity and timeliness of flow of information between the management of the listed entity and the board of directors that is necessary for the board of directors to effectively and reasonably perform their duties.

(5) An independent director shall be held liable, only in respect of such acts of omission or commission by the listed entity which had occurred with his knowledge, attributable through processes of board of directors, and with his consent or connivance or where he had not acted diligently with respect to the provisions contained in these regulations.

Obligations with respect to employees including senior management, key managerial persons, directors and promoters.

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

Disclosure of events or information.

30.

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

SCHEDULE II: CORPORATE GOVERNANCEPART

A: MINIMUM INFORMATION TO BE PLACED BEFORE BOARD OF DIRECTORS

[See Regulation 17(7)]

I. Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the listed entity or taken an adverse view regarding another enterprise that may have negative implications on the listed entity

O. Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.

PART C: ROLE OF THE AUDIT COMMITTEE AND REVIEW OF INFORMATION BY AUDIT COMMITTEE

[See Regulation 18(3)]

A. The role of the audit committee shall include the following:

(1) oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;

(2)..

(3)..

(4) reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:

(a) matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;

(b) changes, if any, in accounting policies and practices and reasons for the same;

(c) major accounting entries involving estimates based on the exercise of judgment by management;

(d) significant adjustments made in the financial statements arising out of audit findings;

(e) compliance with listing and other legal requirements relating to financial statements;

(f) disclosure of any related party transactions;

(g) modified opinion(s) in the draft audit report;

(5) reviewing, with the management, the quarterly financial statements before submission to the board for approval;

B. The audit committee shall mandatorily review the following information:

(1) management discussion and analysis of financial condition and results of operations;

(2) statement of significant related party transactions (as defined by the audit committee), submitted by management

PART D: ROLE OF COMMITTEES (OTHER THAN AUDIT COMMITTEE

[See Regulation 21(4)]

C. Risk Management Committee

The role of the committee shall, inter alia, include the following:

(1) To formulate a detailed risk management policy which shall include:

(a) A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.

SC(R) Act, 1956

Conditions for listing.

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

FINDINGS

57. Before proceeding to deal with the merits of the matter, it would be in the fitness of things to decide as to whether on the death of Noticee 2, the present adjudication proceedings against him would continue or abate.

58. In this regard, it is worth mentioning that in *Girijanandini Vs Bijendra Narain* (AIR 1967 SC 2110), the Hon'ble Supreme Court held that in case of personal actions, i.e., the actions where the relief sought is personal to the deceased, the right to sue will not survive to or against the representatives and in such cases the maxim *actio personalis moritur cum persona* (personal action dies with the death of the person) would apply. It is also relevant to refer to the decision of Hon'ble Securities Appellate Tribunal in *Chandravadan J. Dalal vs. SEBI* (Appeal No. 35/2004 decided on June 15, 2005) wherein it was held that: "*The appeal abates since the appellant during the pendency of the appeal died on 29th November 2004. The appeal accordingly abates. The penalty imposed on the original appellant being personal in nature also abates.*"

59. In view of the foregoing, the instant adjudication proceedings against Noticee 2 are liable to be abated without going into the merits of the case qua him and the SCN dated July 29, 2022 issued against him is disposed of accordingly.

60. On perusal of the material available on record and giving regard to the facts and circumstances of the case and submissions of the Noticees, the findings are recorded hereunder:

ISSUE I. Whether Noticee 1 has violated provisions of Regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii) (3) & (6) of SEBI (LODR) Regulation, 2015 r/w Section 21 of SC(R) Act, 1956? Whether Noticees 3, 4 and 5 have violated the provisions of Regulation 17(9) (b), 18(3) read with Clause A (1), (4), (5); B((1)(2) under Part C of Schedule II , 21(4) read with Part D of Schedule II, regulations 25(4) (c), 25(5) of the SEBI (LODR) Regulations, 2015 r/w Section 21 of SCRA, 1956? Whether Noticee 6 has violated the provisions of Regulation 6(2)(a) and (c) and 17(7) read with Schedule II Part A ((I),O), regulation 30(1) of SEBI (LODR) Regulations, 2015 read with Section 21 of SC(R) Act, 1956? Whether Noticee 7 and 8 have violated the provisions of Regulation 17(5)(a) and 26(3) of SEBI (LODR) Regulations, 2015 read with section 21 of SC(R) Act, 1956?

61. Before proceeding further in the matter on merit, Noticee 7's submissions regarding non-provision of documents to him are being dealt with. He has submitted that following documents have not been provided to Noticee 7, which is against the principles of natural justice.

61.1. Copies of the agenda and entire minutes of board meeting held on April 24, 2017, and January 20, 2017, as well as minutes of the meeting of credit committee for the financial year 2018- 2019

61.2. Credit Approval Memos of the loans advanced to non-ADA Group cases

62. However, Noticee 7 was informed during the inspection that the aforesaid documents were not present in the file and had not been relied upon. Further, Noticee 7 was also provided the documents stated in the table to paragraph 37 above. Thus, there is no violation of principles of natural justice. Therefore, Noticee 7's contention in this regard is not tenable.

63. Vide letter dated June 11, 2019, PwC informed board of directors of RHFL that it was compelled to withdraw from the audit engagement in compliance of the Code

of Ethics issued by the Institute of Chartered Accountants of India and the applicable standards on Auditing. Based on the observations made on the basis of examination of publicly available information, information gathered from the Company, Specified GPCL Borrowers, Onward borrowers, KMPs, members of the audit committee and the risk management committee, which are summarised in paragraph 4 above, proceedings under section 11, 11B of SEBI Act, 1992 were initiated and interim order dated February 11, 2022 was passed by the Ld SEBI Whole Time Member. Following was *inter-alia* observed in the aforesaid order.

“It is noted that generally, a professionally managed company is governed by its Board of Directors, and in case of any malfeasance by the Company, the Board of Directors is held accountable apart from the management which supported commission of such contraventions. However, in case of RHFL it is noted that one individual person (Noticee no.2) who controls the Company due to his position as a promoter and controlling shareholder by way his direct & indirect shareholding, is seen to be exercising unfettered powers, and the KMPs of the Company like the Executive Director and CEO (Noticee no. 4) and the CFOs (Noticee no. 3 and 5), instead of bringing such misdeeds to the notice of the Board of Directors/Regulators, are prima facie found to be hand in gloves with the Noticee no. 2, in siphoning off the borrowed funds of the Company to other financially weak promoter group companies which is evident at different stages of approval of those GPCL transactions.”

64. Various observations were made from the examination of GPCL loan approval documents, minutes of Board meetings, and regarding the inadequate disclosures made by the Company. These observations have already been summarised in the paragraphs 5 to 9 above.

65. The alleged violations made by the RHFL, resulting in siphoning off the funds of the Company (dealt separately by the SEBI WTM in Order dated August 22, 2024) to other promoter related entities are summarised below.
- 65.1. From the examination of GPCL loan approval documents, it was observed that various deviations were recorded in the credit approval memo (CAM) of the entities, to whom GPCL loans were sanctioned and disbursed. There was lack of proper documentation and due diligence in the sanctioning process of the GPCL loans. Further, these entities were promoter-related and financially weak. Thus, RHFL was aware of the high probability of non-recovery of the GPCL loans applied by the promoter related entities, nevertheless, approvals were made and the loans were disbursed.
- 65.2. RHFL had classified these loans as General Purpose Corporate Loans (GPCL), but the purpose mentioned in the application document was to meet working capital requirement of the applicants.
- 65.3. Around ₹ 4,944.34 crore (including unaccounted disbursements of Rs. 824.60 crores) was lent by RHFL to 13 entities, which in turn have onward lent around ₹ 4,533.43 crore. (i.e. around 91.69% of the funds were onward lent) on the same day or within a few days.
- 65.4. In case of loans disbursed to some of the promoter related entities, the funds were routed through other entities, and then finally received by RHFL on the same day. Some of the loans were disbursed to the entities even before the same were sanctioned, which implies that the loan proposals were not evaluated, and the disbursements to the promoter related entities were predetermined.
- 65.5. Thus, the GPCL borrower entities were acting as conduits for passing on the loan funds to other ultimate beneficiaries, i.e other Reliance ADA Group Companies). These borrower entities were connected to each other or other Reliance ADA group companies. Thus, RHFL diverted these funds to the

GPCL borrower entities, which in turn transferred the money to other Reliance ADA group entities and thereby misused the funds of RHFL.

- 65.6. With regard to the Board meeting of RHFL held on February 11, 2019, no disclosures were made to the Exchanges regarding the directions given by the Board of Directors to the management to not lend further for GPCL purposes and to give the loans only for retail home loan portfolio only for long term purposes and for all the purposes as permitted by NHB for individual/ retail residential lending.
- 65.7. In the board meeting held on February 11, 2019, the statutory and internal auditors were also directed to check the documentation of all the loans and ensure their compliance with the Company's policies and guidelines and whether due diligence was exercised in sanctioning the loans and also to verify the adequacy of security.
- 65.8. In the board meeting held on March 28, 2019, the Statutory Auditors presented before the BoD the status of loan files and pointed out that the loans granted under the corporate loan product were seen to be sanctioned without adequate security and without justification based on the net worth and business of the borrowers. However, no disclosures were made to the Exchanges with regard to above.
- 65.9. In the quarterly presentations made to the RMC, AC and the Board Meetings, information indicating the concentration risk was made available to the RMC, AC and Board members. In the meeting held on August 07, 2018 for the quarter ended June 30, 2018, loans in the category of 'construction finance' were to the extent of 92%, as compared to the home loans of around 6%. Similarly, in the meeting held on November 01, 2018, the ratio was 94% lent in the category of 'construction finance' as compared to 6% of home loans.
- 65.10. On February 11, 2019, RHFL had submitted investor presentation on the financial performance of the company for the quarter ended December 31, 2018. In the presentation, there was no mention of the loan category of

‘General Corporate Loans’. However, in the Board Meeting on the same date, i.e. February 11, 2019, the Board was informed that large exposures amounting to ₹7,017.80 crores (₹6157.55 crores outstanding on December 31, 2018) were given for general corporate purposes to 42 entities.

65.11. In the aforesaid meeting, the Board had also expressed concern on the composition of the loan portfolio, as housing loan portfolio had dropped from 53% as on September 30, 2018 to 45% of the total loan portfolio as on December 31, 2018.

65.12. Thus, majority of the loans extended by RHFL were found to be in the nature of GPCL, which were not appropriately disclosed in the investor presentation, due to which investors were misled as to the financial state of the Company.

66. From the above observation and material available on record, it is noted that the loans were made to the promoter related GPCL entities to fund other ADA Group Companies, and appropriate disclosures were deliberately not made to mislead the investors into believing that the Company is having a healthy state of affairs. I also take note of the Final Order dated August 22, 2024 passed by the Ld SEBI WTM in the same case, wherein it has held the following

“60. ... However, the facts and circumstances of this case clearly indicate that the defaults are the culmination of an elaborate and coordinated design to move funds from the public listed company to non-descript and financially weak privately held companies connected with the Reliance ADA group. Adequate disclosures around this were not made to the Public shareholders of RHFL, evidenced by the absence of any material disclosures mandated by securities law. SEBI’s investigation was not the only one to arrive at this conclusion. Separately the reports of PWC (RHFLs statutory auditor) and that of Grant Thornton (forensic auditor appointed by lead bank of consortium of creditors of RHFL– Bank of Baroda) have also arrived at similar conclusions. Significantly, NFRA’s order dated April 26, 2024 has also arrived at similar conclusions.”

“61. The facts of this case is particularly disturbing since it reveals complete breakdown of governance in a large listed company apparently orchestrated by and/ or at the behest of the promoter aided by the indulgent KMPs of the company. The Company which was subject to the regulatory framework laid down by NHB and subsequently RBI (as an HFC) as well as by SEBI (as a listed company) did not seem to care about the need to maintain high standards of governance. This is also a peculiar case where the company’s management has brazenly defied the diktat of its own Board that had raised concerns about GPCL lending and asked the company management to ensure compliance with the law.”

67. It is now pertinent to examine the role of each of the Noticees to find whether they have violated any of the provisions of the LODR Regulations, 2015 and the SC(R) Act, 1956, as alleged in the SCN.

Noticee 1

68. It was alleged that Noticee 1, being on the board of Reliance Capital Limited and Reliance Home Finance limited and also a director in the other Reliance ADAG group companies where the funds were onward lent, did not exercise reasonable due diligence with respect to the entire GPCL lending and the onward lending by these GPCL entities to other Reliance ADAG group companies including Reliance Capital Limited, and thus violated Regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii) (3) & (6) of SEBI (LODR) Regulation, 2015 r/w Section 21 of SC(R) Act, 1956.
69. The aforesaid provisions of LODR Regulations, 2015 stipulate that 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; shall maintain high ethical standards; monitor and manage potential conflicts of

interest, including abuse in related party transactions; ensure the integrity of the accounting and financial reporting systems.

70. Noticee 1 was non-executive non-independent director of RHFL and executive director of Reliance Capital Limited. As per the RHFL Leadership Organogram, the CEO, Mr Ravindra Sudhalkar was reporting to him. The same can be confirmed from the screenshot of system address book of Mr Ravindra Sudhalkar. Noticee 1 has also submitted in his statements to SEBI that the CEO used to submit monthly / quarterly MIS to him and he used to have unstructured meetings with the CEO to discuss strategy, business, operations, etc.
71. Noticee 1 has submitted that there was 'dotted line' reporting of Mr Sudhalkar to Noticee 1 and no solid line reporting. Further, Noticee 1 was a recent graduate and was being groomed by Mr Sudhalkar. From the submissions of Noticee 1 and from the minutes of the Board meetings, I note that Noticee 1 attended the board meetings held on April 24, 2018, June 04, 2018, August 07, 2018 and November 01, 2018. Noticee 1 has also submitted that nothing unusual transpired or was highlighted in the meetings attended by him, and that the Board of RHFL cannot be expected to review each and every loan application or sanction.
72. Vide email dated October 27, 2023, Noticee 1 was asked to provide his comments on the email communication, wherein Noticee 1 had given approval for unsecured loan of ₹20 crores to Visa Capital Partners and ₹20 crore to Accura Production Private Limited. The snips of the email communication are provided below.

From: Anmol Ambani/RCL/Chairman Office
Sent: 17 May 2018 16:06
To: Bhupal Singh/RHF/Finance
Cc: Amit Bapna/RCL/Finance; Ravindra Sudhakar/RHF/CEO's Office; Krishnan Gopalakrishnan/RHF/RK - Common; Raj Kumar M/RHF/CR-Mort-CF
Subject: Re: Visa Capital Partners- Unsecured Loan

Okay

On 17 May 2018, at 15:26, Bhupal Singh/RHF/Finance <Bhupal.Singh@relianceada.com> wrote:

Dear Sir,
As discussed with Amit sir, request your approval for 20 Crs unsecured loan to Visa capital Partners

Applicant Name	Visa Capital Partners
Loan Amount	20,00,00,000
Security	Unsecured
Rate of Interest	10.50%
Tenure	12 Month
Repayment	Monthly Interest Payment

Regards
Bhupal Singh
(T) 022 3303 6059
(M) 99300 93555

From: Anmol Ambani/RCL/Chairman Office
Sent: 14 February 2019 11:35
To: Bhupal Singh/RHF/Finance
Subject: Re: Funding Rs. 20 Cr

Okay

On 14 Feb 2019, at 10:52, Bhupal Singh/RHF/Finance <Bhupal.Singh@relianceada.com> wrote:

Dear Sirs,
Request your approval for 20 Crs corporate loan disbursement to Accura Production P Ltd

Regards
Bhupal Singh

From: Anurag R Mathur@relianceada.com <Anurag.R.Mathur@relianceada.com>
Sent: 13 February 2019 19:56
To: Bhupal Singh/RHF/Finance <Bhupal.Singh@relianceada.com>
Cc: Ambar Basu <Ambar.Basu@relianceada.com>; Purvi A Desai <Purvi.A.Desai@relianceada.com>;
Reliance-Amit <amit.sen@reliancehvz.com>; Chandrakant R Jadhav
<Chandrakant.R.Jadhav@relianceada.com>
Subject: Funding Rs. 20 Cr

Dear Bhupal

Please fund Rs 20 Cr in Accura Productions P Ltd tomorrow (14 Feb 19) . Bank Details attached

Regards

Anurag Mathur

Enjoy the widest reach of 3G services across India only On Reliance
www.rcom.co.in/3G

73. From the snips of the email communication provided above, following can be observed.
- 73.1. On May 17, 2018 at 15:26 Hrs, Bhupal Singh sent an email to Noticee 1, requesting for “**approval**” of ₹20 crore of unsecured loan to Visa Capital Partners. Noticee 1, on the same day at 16:06 Hrs, confirmed to the same by replying to the email “**Okay**”.
- 73.2. On February 14, 2019 at 10:52 Hrs, Bhupal Singh sent an email to Noticee 1, requesting for “**approval**” of ₹20 crore loan disbursement to Accura Production Private Limited. Noticee 1, on the same day at 11:35 Hrs, confirmed to the same by replying to the email “**Okay**”.
74. With regard to the aforesaid email communication sent to Noticee 1, wherein Noticee 1 had given approval for unsecured loan of ₹20 crore to Visa Capital Partners and ₹20 crore to Accura Production Private Limited, Noticee 1 submitted that he could not recollect the context and background of the cited mails. He further submitted that these emails were not in the nature of approvals provided by him, and appear to be mere acknowledgements of the receipt of the respective trail mails, having regard to professional email etiquette.
75. From the aforesaid email communication, it is clearly evident that Noticee 1 is misrepresenting with an intent to downplay his role in the entire episode. It is clear that the emails were sent to him with exact word “**approval**”, thus seeking approval and Noticee 1 responded to both the emails with the same word “**okay**”, granting his approval. By no stretch of imagination can this be construed as ‘*for information and for noting*’, as has been attempted to be misrepresented by the Noticee.
76. Given the above, it is clear that Noticee 1 was involved in the day to day functioning of the Company, and in fact, he was also approving GPCL loans to

promoter-related entities. Thus, his submission that he was not involved in day-to-day affairs of the Company cannot be accepted.

77. It is also noted that the approval for loan of ₹20 crores to Accura Productions Private Limited was provided by Noticee 1 on February 14, 2019, even though the BoD, in the Board Meeting held on February 11, 2019, had directed the management to not issue any further GPCL loans.
78. Noticee 1 had submitted that it has not been demonstrated in the SCN as to how he enjoyed any legal right or power to control the management or policy decisions of RHFL. From the aforesaid email communications, it is noted that his approvals were being sought and accepted for GPCL loans, are adequate and sufficient factors to conclude that he was exercising substantial power in the Company.
79. Thus, it is observed that Noticee 1, being a non-executive director, has not acted in good faith, with due diligence and care, and in the best interest of RHFL and its shareholders and has not maintained high ethical standards. He has also not ensured that appropriate systems for risk management and internal controls are in place. On the contrary, evidence shows that, while being a non-executive director, he was involved in the approvals of some of the GPCL loans to promoter-related entities, one of which was approved by him after the Board Meeting held on February 11, 2019.
80. In view of the foregoing, it is concluded that Noticee 1 has contravened the provisions of Regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii) (3) & (6) of SEBI (LODR) Regulation, 2015.

Noticees 3, 4 and 5

81. It has been alleged that Noticees 3, 4 and 5, being members of the Audit Committee (AC) and Risk Management Committee (RMC), have failed to discharge their basic duties, due to which the scheme/ unfair practices being followed at RHFL could be carried out for the benefit of ADA Group entities, and to the adverse of the Company as well as its public shareholders. They are alleged to have violated the provisions of Regulation 17(9) (b), 18(3) read with Clause A (1), (4), (5); B(1), (2) under Part C of Schedule II , 21(4) read with Part D of Schedule II, regulations 25(4) (c), 25(5) of the SEBI (LODR) Regulations, 2015 r/w Section 21 of SCRA, 1956
82. Noticee 3 submitted that he joined RHFL as non-executive independent director on February 26, 2018 until October 23, 2019. Noticee 4 has submitted that she was non-executive independent director of RHFL from March 24, 2015 until March 30, 2019. Noticee 5 has submitted that he joined RHFL as its non-executive director in 2009 until May 02, 2019.
83. Noticees 3, 4 and 5 have submitted that for the following reasons, they could not have been aware about the discrepancies in the GPCL loan approval process.
- 83.1. Auditors had duly audited accounts for FY 2017-18.
- 83.2. No red flags were highlighted by the statutory or internal auditors or in the presentations made to the members, in the AC and RMC meetings held for the first three quarters of FY 2018-19.
- 83.3. No concerns were raised regarding deviations from guidelines/ policies, prior to February 11, 2019. Only in the presentation made on February 11, 2019, it was informed to the members that for certain borrower entities, the financial parameters such as profits, capital and reserves, assets, etc was significantly less than the loan amount sanctioned to them.

83.4. None of the GPCL loans were classified as NPA by RHFL as on September 30, 2018.

84. Part C of Schedule II of LODR Regulations states the roles and responsibilities of members of an Audit Committee and Part D of Schedule II of LODR Regulations states the roles and responsibilities of members of Risk Management Committee.

The aforesaid provisions include

- Evaluation of internal financial controls and risk management systems
- To formulate a detailed risk management policy which shall include a framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee

85. It is noted that Noticees 3, 4 and 5, being non-executive directors, were not involved in day to day affairs of the Company.

86. It is further noted that Noticees 3, 4 and 5 have claimed that they were not made aware regarding the deviations from the normal business activities any time before the board meeting held on February 11, 2019. Further there is no credible information in the show cause notice that indicates that Noticees 3, 4 and 5 were aware of the deviations.

87. Noticees 3, 4 and 5 admittedly were members of the audit committee and risk management committee, no such information / facts were explicitly brought to their notice either by the management, or by the internal auditors or the statutory auditors, based on which they could have taken action at an earlier point of time.

88. While some scanty information was also made available to them through quarterly presentations made to the AC, RMC and in the Board Meetings for the quarters ended June 30, 2018 and September 30, 2018, however as claimed it was not specific information. Further, there were no indications of any qualifications made by the auditors of the company over the quarters leading up to December 2018.
89. It is noted that the source of financial information flow to the independent directors on the Board is either through the management representations/ information provided or based on the auditor's report. None of the management representations had any information that could alert the independent directors to raise a red flag. There thus appears to be a deliberate attempt by the management to keep vital information away from the Board. It is noted that the same has been dealt with separately in the SEBI WTM Order dated August 22, 2024.
90. Records show that Noticees 3, 4 and 5 became aware of the deviations when the board of directors were made aware of the fact in its meeting held on February 11, 2019 that the housing loan portfolio had dropped from 53% to 45% as compared to the quarter ended September 30, 2018. Upon being brought to notice, Noticees 3, 4 and 5 have mentioned that they had inter-alia directed the management to not make any further lending to the corporates and to give loans only for housing sector. This is the first measure taken to ensure that the deviations are not aggravated further.
91. The Board of Directors further directed that the statutory auditors as well as internal auditors to check the documentation of all the loans and ensure their compliance with the Company's policies and guidelines. This measure shows that Noticees 3, 4 and 5 desired to cross verify whether the loan portfolio had no further surprises.

92. Thus, it can be concluded that Noticees 3, 4 and 5 had taken due actions when the irregularities came to their notice.

93. Here, it would be pertinent to refer section 27 of the Securities and Exchange Board of India Act, 1992 which provides for the offences by companies and reads in relevant part as under:

Offences by companies.

(1) Where an offence under this Act has been committed by a company, every person who at the time the offence 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 offence and shall be liable to be proceeded against and punished accordingly: Provided that nothing contained in this subsection shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence.

94. It is observed that Noticees 3, 4 and 5 have relied on the ratio mentioned in the following order passed by the Hon'ble Supreme Court in Sunil Bharti Mittal v. Central Bureau of Investigation dated January 09, 2015, wherein Hon'ble Supreme Court inter alia observed that

"No doubt, a corporate entity is an artificial person which acts through its officers, directors, managing director, chairman etc. If such a company commits an offence involving mens rea, it would normally be the intent and action of that individual who would act on behalf of the company. It would be more so, when the criminal act is that of conspiracy. However, at the same time, it is the cardinal principle of criminal jurisprudence that there is no vicarious liability unless the statute specifically provides so. Thus, an individual who has perpetrated the commission of an offence on behalf of a company can be made accused, along with the company, if there is

sufficient evidence of his active role coupled with criminal intent. Second situation in which he can be implicated is in those cases where the statutory regime itself attracts the doctrine of vicarious liability, by specifically incorporating such a provision. When the company is the offender, vicarious liability of the Directors cannot be imputed automatically, in the absence of any statutory provision to this effect.”

95. Thus, there does not exist any ground to differ with Noticees 3, 4 and 5 in the matter and that the above judgement applies to the case of Noticees 3, 4 and 5 too.
96. In view of the aforementioned observations, the allegation of violation of provisions of Regulation 17(9) (b), 18(3) read with Clause A (1), (4), (5); B(1), (2) under Part C of Schedule II , 21(4) read with Part D of Schedule II, regulations 25(4) (c), 25(5) of the SEBI (LODR) Regulations, 2015 r/w Section 21 of SC(R) Act, 1956 against Noticees 3, 4 and 5 does not stand established.

Noticee 6 – Parul Jain

97. It has been alleged that Noticee 6, being the Company Secretary and Compliance Officer of RHFL, failed to disclose to the Exchanges, the directions issued by the Board of Directors during the Board meeting held on February 11, 2019. It has also been alleged that Noticee 6 did not place complete and timely information before the Board of Directors regarding the GPCL lendings, possibility of default and subsequent onward lending to other entities of Reliance ADA Group. Thus, she is alleged to have violated the provisions of regulation 6(2)(a), (c) and 17(7) read with Schedule II Part A ((I), O), 30(1) of SEBI (LODR) Regulations, 2015 read with Section 21 of SC(R) Act, 1956.
98. Noticee 6 has submitted that the direction issued in the board meeting held on February 11, 2019 was an internal direction and not an event required to be

disclosed under Regulation 30 of the LODR Regulations. Noticee 6 has submitted that the disclosures to be made under Para A and B of Part A of Schedule III of LODR Regulations are not applicable for the disclosure of the information of directions made by the Board of Directors in the meeting held on February 11, 2019. She has also submitted that regulation 30(1) of the LODR Regulations enables the board of directors to determine if an event is material, so that the same can be disclosed to the exchange.

99. In this regard, it is noted that the directions given by the Board in its meeting held on February 11, 2019 were indeed an internal issue to be complied by the management of the company. Further, there is no material on record to show that the Board had considered the same as material for disclosure to the Exchanges. Hence, the contention of Noticee 6 is acceptable.

100. Further, with regard to the allegation that Noticee 6 did not disclose the information related to GPCL lendings to promoter related entities and onward lending to other Reliance ADA group entities, the undersigned notes that there is no conclusive evidence in the SCN to demonstrate that Noticee 6 was aware of how the loan approval process was not being followed and how the GPCL entities were onward lending to other Reliance ADA Group entities.

101. In view of the foregoing, the allegation of violation of regulation 6(2)(a), (c) and 17(7) read with Schedule II Part A ((I), O), 30(1) of SEBI (LODR) Regulations, 2015 read with Section 21 of SC(R) Act, 1956 against Noticee 6 does not stand established.

Noticee 7 – Krishnan Gopalakrishnan and Noticee 8 – Rajkumar M

102. It was observed that Noticee 7 and Noticee 8 were Chief Risk Officers (CRO) of RHFL during the IP. Being the CRO, they were members of the credit committee

and thus, it was alleged that they were liable for approving loans to GPCL borrowers and responsible for deficiencies observed in the loan approval process.

103. As per the code of conduct laid down by the Board of RHFL, Noticee 7 and Noticee 8, being CRO, were also part of Senior Management of RHFL. It was alleged that while being a part of senior management, they had approved the GPCL loans, necessary compliance was not done by them, with the Code of Conduct, and thus they failed to discharge their duties in accordance with regulation 17(5)(a) and 26(3) of SEBI LODR Regulations, 2015 read with section 21 of SC(R) Act, 1956.

Noticee 7

104. Noticee 7 was Chief Risk Officer of RHFL from November 01, 2016 to November 20, 2018. As per the Board Resolution dated April 24, 2017, being the CRO, he was part of the Credit Committee.

105. Noticee 7 has submitted that there has been an inordinate delay in the issuance of the SCN. It may be noted that the investigation was initiated pursuant to PwC's letter dated June 11, 2019 to the Board of Directors of RHFL. The Investigating Authority submitted the investigation report on March 02, 2022. Pursuant to appointment of the undersigned as the adjudicating officer on March 03, 2022, the SCN dated July 29, 2022 was issued. Thus, the claim of Noticee 7 that there is delay in the instant proceedings, is not tenable. Further all relevant information and sufficient opportunities have been provided to Noticee 7 to provide submissions in support of his case.

106. Noticee 7, in his submissions dated October 19, 2022, explained the process of loan approvals and contended that there is nothing on record to show that he did not comply with the demand/ call policy dated November 01, 2018, and also that he cannot be blamed for non-compliance of that policy as he had left the

organisation on November 20, 2018. It is noted that no allegations have been made against Noticee 7 for non-compliance with Demand / Call loan policy dated November 01, 2018.

107. Noticee 7 has submitted that the policy for approving GPCL loans proposed by Mr Amit Bapna (CFO) was not followed in many instances and accordingly, the deviations were highlighted in CAMs and approved by the CEO, Mr Ravindra Sudhalkar. Noticee 7 has submitted that the loans given to ADA Group entities were highlighted in all the meetings of the RMC, comprising of independent directors, as these were very high amounts of loans. In this regard, it is noted that Noticee 7 has nowhere stated in his statement recordings before SEBI, that he had informed regarding the same, being CRO of RHFL. Neither any such statements can be found in the RMC meeting minutes of FY 2018-19.
108. Noticee 7 has submitted that he has signed as “recommended by” and not “approved by”, which shows that he was not the approving authority for the said loans. He also submitted that he was only evaluating and recommending the proposals to the approving authority. However, this is contrary to the documents on records, which have not been contested by Noticee 7. It is noted from the Board Resolution dated April 24, 2017, regarding Credit Authority Delegations (CAD), it is clearly mentioned that the CRO, along with CEO and one Director was the approving authority for loans greater than ₹5 crore.
109. Noticee 7 has further submitted that CAD being followed is pursuant to the Board Resolution dated January 20, 2017 (a copy of which was also provided by Noticee 7), and not pursuant to Board Resolution dated April 24, 2017. Upon perusal of the Board Resolution dated January 20, 2017 and the loan application documents, it is observed that while some of the applications have been only approved by ‘Chairman, Reliance Group’, other applications have been approved by Noticee 7

(CRO), CEO and the CFO. It is also critically observed that, CFO and Chairman, Reliance Group have not been resolved to be approving authorities, as per the Board Resolutions dated April 24, 2017 and January 20, 2017, which demonstrates that approvals were not given as per the said policy resolutions. Thus, Noticee 7's contention that Board Resolution dated January 20, 2017 was being followed, is not tenable.

110. Noticee 7 has submitted that he has approved only 10 GPCL loans, totaling to ₹702.11 crore out of the 49 loans approved between April 2018 till November 2018. In this regard, it is noted that Noticee 7 has confirmed that he was aware about the delinquencies in the GPCL loan approval, and he was also involved in some of the loan applications as approving authority, and in some others for recommending purpose.
111. Noticee 7 has submitted that he was not part of the senior management. In this regard, he has contended that he was called for the RMC meetings, only as an invitee. Further, he was not informed that he was part of the Senior Management and he has not signed the code of conduct, even though RHFL, in its annual report for the FY 2018-19, has stated that all the members of senior management have signed the code of conduct. He has also submitted that most of the GPCL loans were issued after he left the organization in November, 2018, which indicates that the CRO was not considered the part of Senior Management. In this regard, it is noted that being Chief Risk Officer (CRO) of RHFL, Noticee 7 was part of the Senior Management of RHFL, as per the Leadership Organogram submitted by Mr Ravindra Sudhalkar, erstwhile CEO of RHFL. CRO of a housing finance company is a very important position and cannot be considered to be a humble position and Noticee 7 cannot claim that he was not aware that he was part of the senior management. In respect to his claim that he has not signed the code of conduct, which was stated to be signed by all the senior management in RHFL's

Annual report for FY 2018-19, it is noted that he had already left the organization before the end of the financial year, and thus he was no longer a part of the senior management as on March 31, 2019. Irrespective of the above, his non-signing of the code of conduct cannot be a defense especially in the face of evidence in the organogram that he was indeed part of the senior management when he was the CRO of RHFL.

112. Noticee 7 has further submitted that he has brought the deviations recorded by him in the CAMs of GPCL loans to the attention of committees and he also made it clear to the committee that the GPCL loans were approved by him subject to the deviations recorded therein and that certain GPCL loans pose certain credit and operational risks to the portfolio of RHFL. It is noted that there are no supporting documents on record in support of his submissions. Any of these remarks of Noticee 7 are not recorded in the minutes of the RMC meetings, thus these are mere statements and bereft of any credence.

113. Code of Conduct of RHFL, dated September 08, 2017, as applicable to the members of the Senior Management provides the following:

They shall

- *Use due care and diligence in performing their duties of office and in exercising their powers attached to that office.*
- *Act honestly and use their powers of office, in good faith and in the best interests of Reliance Home Finance*
- *Not make improper use of information nor take improper advantage of their position as a Director / Senior Management Personnel*
- *Recognize that their primary responsibility is to Reliance Home Finance shareholders as a whole but they should (where appropriate) have regard for the interests of all stakeholders of Reliance Home Finance*

- *Not engage in conduct likely to bring discredit upon Reliance Home Finance*
- *Be independent in judgment and actions, and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board of Directors; and*
- *Ensure the confidentiality of information they receive whilst being in office of Director / Senior Management Personnel and is only disclosed if authorized by the Company, or the person from whom the information is provided, or as required by law*

114. From the aforementioned paragraphs, I find that Noticee 7, being CRO, was part of the Senior Management. He had approved 10 GPCL loan applications made by promoter-related entities. He had also recommended many of the GPCL applications, even after noting deviations in the CAMs. Importantly, he should not have involved himself in approving or recommending the GPCL loan applications. Being part of the senior management, he should have acted in good faith, in the interests of RHFL and its stakeholders, as it was his primary responsibility. He should not have indulged in such conduct and should have acted independently, and should have taken all reasonable steps to escalate the matter to the Board of Directors, Audit Committee and other relevant fora.

115. In view of the foregoing observations, Noticee 7 has violated the provisions of regulation 17(5)(a) and 26(3) of SEBI LODR Regulations, 2015.

Noticee 8

116. Noticee 8 joined RHFL in 2011 and he was the Chief Risk Officer (CRO) from May 15, 2019 until November 04, 2019. As per the Board Resolution dated April 24, 2017, being the CRO, he was part of the Credit Committee.

117. Noticee 8 has submitted that during the IP, he was Head of Construction Finance and Credit Risk, though he was member of the credit committee. However, he was not a part of the senior management before being appointed as the CRO on May 15, 2019. When Noticee 7 left the organization, the position of CRO remained vacant until he was designated as the CRO. Even the Organogram as on March 31, 2019 mentions his designation as 'Head – Construction Finance, Credit & Risk' and not 'CRO', as it was showing earlier for Noticee 7. Noticee 8 also submitted that Mr Ravindra Sudhalkar has also stated in his response to the questions asked by the SEBI investigating authority that credit team was reporting to the CRO and the CRO was reporting to Mr Ravindra Sudhalkar. Noticee 8 further submitted that he was head of the credit team and he was reporting to the CRO. As Noticee 7 had resigned, the hierarchy of reporting was changed, only to solve operational difficulties, and consequently, Noticee 8 was reporting to Mr Ravindra Sudhalkar.
118. In this regard, the factual submissions made by Noticee 8 are accepted. It is also noted that Noticee 8 has not approved any of the GPCL loan applications. It is also noted that as per the Code of Conduct of the RHFL, "Senior Management" shall mean *officers / personnel of the Company who are members of its core management team excluding the Board of Directors. This comprises of all members of the Management one lever below the Executing Director(s), if any, including all Functional Heads*. Noticee 8 was not the CRO of RHFL during the period when GPCL loans were approved. There is no corroborative evidence to show that Noticee 8 was part of Senior Management during the IP. In view of the above, it is concluded that the allegation against Noticee 8, of violation of provisions of regulation 17(5)(a) and 26(3) of SEBI LODR Regulations, 2015 read with section 21 of SC(R) Act, 1956 does not stand established.
119. To summarize the foregoing findings, it is concluded that Noticee 1 has violated the provisions of Regulations 4(2)(f)(ii)(6),(7),(8), 4(2)(f)(iii)(3)&(6) of SEBI (LODR)

Regulation, 2015 and Noticee 7 has violated the provisions of Regulation 17(5)(a) and 26(3) of SEBI (LODR) Regulations, 2015.

ISSUE II: Does the violation, if any, on part of the Noticees attract penalty under Section 15HB of SEBI Act, 1992?

120. The provisions of Section 15HB of SEBI Act, 1992 read as under:

SEBI Act, 1992

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.*

121. It is noted that, the Hon'ble Supreme Court of India in the matter of Chairman, SEBI Vs Shriram Mutual Fund {[2006]5 SCC 361} has held that:

"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant....."

Thus, it is a fit case for imposition of penalty.

ISSUE III: If so, how much penalty should be imposed on the Noticees taking into consideration the factors mentioned in Section 15J of the SEBI Act, 1992?

122. While determining the quantum of penalty under Section 15HB of SEBI Act, 1992, it is important to consider the factors relevantly as stipulated in Section 15J of the SEBI Act, 1992, which reads as under:

SEBI Act, 1992

15J Factors to be taken into account by the adjudicating officer

While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- (b) the amount of loss caused to an investor or group of investor/+s as a result of the default;*
- (c) the repetitive nature of the default.*

123. It is noted that the material available on record has not quantified the amount of disproportionate gain or unfair advantage, if any, made by the Noticees 1 and 7 and the loss, if any, suffered by the investors as a result of the failure of Noticees 1 and 7. It is also noted that no prior default of Noticees 1 and 7 is available on record.

124. As can be observed that Noticee 1 had approved GPCL loans, and that too after the Board of Directors had given clear direction not to go ahead with any approval of such loans. Noticee 1, as Non-Executive director of the Company, has taken the company in his own direction and has gone overboard in his role as Director. Noticee 1 in doing so, gives a hint of being motivated and definitely not in the interests of the shareholders and has not acted with due care and diligence, and has not maintained high ethical standards. Noticee 7 had also approved various GPCL loans and was aware about the substantial deviations which were recorded in the credit approval memos of various loans which he had recommended, while being the CRO of the Company. While being a part of the Senior Management of RHFL, Noticee 7 should have followed due process, complied with the code of conduct of the Company, and acted with due care and diligence in performing his duties and acted in good faith, in the interest of all stakeholders of the Company.

ORDER

125. Having considered all the facts and circumstances of the case, the material available on record, the submissions made by Noticee, the mitigating factors as stated above and also the factors mentioned in Section 15J of the SEBI Act, 1992, and in exercise of the powers conferred under Section 15-I of the SEBI Act and Rule 5 of the Adjudication Rules, following penalties are hereby imposed upon the Noticees for the violations mentioned hereunder.

Name of the Noticee	Violation Provisions	Penal Provisions	Penalty
Mr Jai Anmol Ambani (Noticee 1)	Regulations 4(2)(f)(ii)(6), (7), (8), 4(2)(f)(iii) (3) & (6) of SEBI (LODR) Regulation, 2015	Section 15HB of SEBI Act, 1992	₹1,00,00,000/- (Rupees One Crore Only)
Mr Krishnan Gopalakrishnan (Noticee 7)	Regulation 17(5)(a) and 26(3) of SEBI (LODR) Regulations, 2015		₹15,00,000/- (Rupees Fifteen Lakh Only)

126. Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e., www.sebi.gov.in on the following path, by clicking on the payment link: ENFORCEMENT → Orders → Orders of AO → PAY NOW. In case of any difficulties in payment of penalties, Noticee may contact the support at portalhelp@sebi.gov.in.

127. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act, 1992 for realization of

the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties of Noticee.

128. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticees and also to the Securities and Exchange Board of India.

Place: Mumbai

Date: September 23, 2024

**BARNALI MUKHERJEE
ADJUDICATING OFFICER**