

BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
(ADJUDICATION ORDER NO: Order/AS/RM/2024-25/30962-30968)

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

In respect of:

Noticee No.	Name of the Noticee	PAN
1	LCC Infotech Limited	AACCA2580J
2	Mrs. Kirti Lakhotia	AAWPL2735K
3	Mr. Sidharth Lakhotia	AAWPL2734J
4	Mr. Pratik Lakhotia	ABWPL2224N
5	Mr. Kamaljit Singh	AHOPD6127G
6	Mr. Rajat Sharma	AIGPS1209K
7	Mr. Mayur P. Shah	ARNPS1936P

In the matter of LCC Infotech Limited

BACKGROUND OF THE CASE

1. Securities and Exchange Board of India ('hereinafter referred to as 'SEBI') received a reference from the NSE in respect of the company, LCC Infotech Limited (hereinafter referred to as the "LCC/ company/ **Noticee 1**"). NSE raised a primary concern over the value reported by the company of the investment, loan (assets) and trade receivables, which constitute 94% of the company's total assets in the FY 2021-22. Pursuant to the preliminary examination, the matter was taken up for detailed investigation. The period of investigation was from April 1, 2021 to March 31, 2022 (herein after referred to as the "IP"). However, whenever deemed necessary, references were made to the events/timeframes outside this period.
2. Pursuant to Investigation, SEBI initiated Adjudicating Proceedings against LCC Infotech Limited, Mrs. Kirti Lakhotia (hereinafter referred to as **Noticee 2**), Mr.

Sidharth Lakhotia (hereinafter referred to as **Noticee 3**), Mr. Pratik Lakhotia (hereinafter referred to as **Noticee 4**), Mr. Kamaljit Singh (hereinafter referred to as **Noticee 5**), Mr. Rajat Sharma (hereinafter referred to as **Noticee 6**) and Mr. Mayur P. Shah (hereinafter referred to as **Noticee 7**), (herein after collectively referred to as “Noticees”) under Section 15HB of SEBI Act, 1992 for violating the following provisions:

- 2.1. **Noticee 1:** Regulations 4(1), 4(2) e, 33(1) (a), 33(1) (c), 34(3) and 48 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as the “LODR Regulations”)
- 2.2. **Noticee 2:** 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(ii)(8) and 4(2)(f)(iii)(7) of LODR Regulations; and Regulation 4(1), 4(2)e, 33(1)(a), 33(1)(c), 34(3) and 48 of LODR Regulations, read with Section 27 of SEBI Act, 1992.
- 2.3. **Noticee 3 and Noticee 4:** 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(7), and 17(8) of LODR Regulations; and Regulation 4(1), 4(2)e, 33(1)(a), 33(1)(c), 34(3) and 48 of LODR Regulations read with Section 27 of SEBI Act, 1992.
- 2.4. **Noticees 5 to 7:** Regulation 18 (3) r/w Para A of Part C of Schedule II of LODR Regulations.

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI appointed Mr. Biju S, Chief General Manager as Adjudicating Officer in the matter vide order dated March 05, 2024. Pursuant to the transfer of the erstwhile AO, undersigned was appointed as the Adjudicating Officer, vide order dated July 22, 2024, under Section 19 of the SEBI Act read with Section 15-I (1) of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as ‘**SEBI Adjudication Rules**’) to inquire into and adjudge under the provisions of the Section 15HB of the SEBI Act for the violations alleged to have been committed by the Noticees.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice bearing reference no. SEBI/EAD-1/BS/18834/1/2024 dated June 05, 2024 (hereinafter referred to as '**SCN**') was issued to the Noticees in terms of the provisions of Rule 4(1) of the SEBI Adjudication Rules read with Section 15-I of the SEBI Act, requiring the Noticees to show cause as to why an inquiry should not be held against it and why penalty, if any, should not be imposed upon the Noticees under Section 15HB of the SEBI Act for the alleged violations. I note that SCN was issued to Noticees, and was duly served upon the Noticees and it was acknowledged by the Noticees. The Noticees submitted response to SCN vide letter dated June 26, 2024.
5. In the interest of natural justice, vide hearing notice dated August 07, 2024 an opportunity of hearing on September 03, 2024 was granted to the Noticees. Mr. Sidharth Lakhotia, Director & CEO of Company appeared as Authorised Representative for Noticees (hereinafter referred to as "**AR**") and attended the hearing on September 03, 2024 through video conference and reiterated the submissions made by the Noticees vide letter dated June 26, 2024.
6. The allegations levelled against the Noticees in the SCN are summarized in the following paragraphs:
7. Details of the company's Board of Directors, Audit Committee members and Statutory Auditor during the investigation period are given below:

Name of the entity	PAN	Designation	From	To
Mrs. Kirti Lakhotia (Noticee 2)	AAWPL2735K	Promoter, Managing Director (MD)	01/04/1999	-
Mr. Sidharth Lakhotia (Noticee 3)	AAWPL2734J	Promoter, Whole Time Director , Chief Executive Officer (CEO)	15/05/1998	-
Mr. Pratik Lakhotia (Noticee 4)	ABWPL2224N	Whole-Time Director, Chief Financial Officer (CFO)	30/01/2003	
Mr. Kamaljit Singh	AHOPD6127G	Independent Director &	28/07/2006	

(Noticee 5)		Audit Committee Member		
Mr. Rajat Sharma	AIGPS1209K	Independent Director & Audit Committee Member	14/08/2019	
(Noticee 6)				
Mr. Mayur P. Shah	ARNPS1936P	Independent Director & Audit Committee Member	20/08/2019	
(Noticee 7)				
Mr. Anil Malani (M/s. Anil Malani & Associates)	Firm Reg. no. 329096E	Statutory Auditor	Financial year 2021-22	

8. Financial Overview: The company's financial results for the Financial Year ("FY") ended 2020-21, 2021-22 and 2022-23 are shown as below:

Rs. In crores

	Quarterly				Annual		
Details	Jun-2021	Sep-2021	Dec-2021	Mar-2022	31.03.2021	31.03.2022	31.03.2023
Revenue from operations	1.13	0.02	0.01	0.01	0.02	1.16	1.60
Other Income	0.012	0.01	0.01	0.01	0.09	0.05	0.11
Total Income	1.14	0.03	0.02	0.03	0.11	1.21	1.71
Total Expenditure	1.30	0.26	0.28	0.11	1.61	1.95	2.35
Net Profit/Loss after tax	(0.156)	(0.23)	(0.26)	(0.09)	(1.50)	(0.74)	(0.64)

9. It may be seen that LCC had nominal revenue from operations and continuously made losses from FY 2020-21 to FY 2022-23.

Analysis of investment in 57 companies (unquoted)

10. It was alleged that 57 unlisted companies in which LCC had made investments have been struck off, non-active on Ministry of Corporate Affairs (hereinafter referred to as "MCA"). However, the Noticee 1 has been valuing these investments on at amortized value rather than the fair value.
11. As per investigation report, on analysis of Annual Report for FY 2021-22 of the company, it was seen that there were no write offs on the investments. The value

of investments as on March 31, 2022 was same as the value of investments as on March 31, 2021. Hence, it was alleged that Noticee 1 had not made any write off. Accordingly, further information was sought from Noticee 1.

12. Based on the reply received from Noticee 1, movement of investments for last five financial years were analysed from the annual reports. Details of the same is tabulated below:

Rs. In crores

	Particulars	FY2017 -18	FY2018 -19	FY2019 - 20	FY2020 -21	FY2021 -22
A	Investment in subsidiary	1.84	1.84	1.84	1.84	1.84
	Other investments:					
B	Quoted	0.70	0.70	0.70	0.70	0.70
C	Unquoted	17.62	17.34	17.09	16.79	16.79
	Total Non-current Investments	20.16	19.87	19.63	19.33	19.33
	Write Off (Current Year Investments-Previous Year Investments)		0.29	0.24	0.30	0

13. It was observed that Noticee 1 had written off a total of Rs. 0.83 crore in the 3 financial year till FY 2020-21 i.e. (0.29cr in FY 2018-19, 0.24cr in FY 2019-20 & 0.30cr in FY 2020-21). In this regard, the Noticee 1 submitted that it did not provide any write off in FY 2021-22 as it had accumulated huge operational losses. Hence, it was alleged that, Noticee 1 did not make provision or write off to avoid reporting further losses.

14. Further, it was also observed from the investigation report that out of 57 investee companies, names of 13 companies were not found on Registrar of Companies (hereinafter referred to as "ROC"), 4 companies were struck off, 1 company has become dormant, 1 company has been under liquidation and 1 company was dissolved. Accordingly, vide summon dated October 23, 2023, further clarification was requested from Noticee 1.

15. As per the response of Noticee1, since the investments had no value, they were carried at amortized cost. However, if investments have no value, they should have been written off/impaird in the books. As per Ind AS 109, impairment is also applicable to financial assets measured at Amortized Cost. Therefore, it was alleged that, Noticee 1 inflated the investments and failed to report the investments of Rs. 16.79 crores in accordance with Ind AS 109 by continuing to recognize them at cost without impairing them.

16. Therefore, it was alleged that, during the FY 2021-22, Noticee 1 did not recognize Expected Credit Loss (ECL) on / to write off the investment of Rs. 16.79 crores in the shares of certain unlisted companies, in terms of IND – AS 109. Non-recognition of ECL on / no write off of the said investment resulted in overstatement of investments.

Non provisioning against long outstanding Trade Receivables:

17. As per investigation report, as on March 31, 2022, Noticee 1 had trade receivables of Rs. 19.64 crore which were 32 % of the total assets. Trade Receivables, revenue from operations and total assets over the last 4 financial years are tabulated below:

Rs. In crores

Particulars	FY2018-19	FY2019-20	FY2020-21	FY 2021-22
Trade receivables (debtors)	19.94	20.95	20.34	19.64
Revenue from Operations	11.06	4.25	0.02	1.16
Bad debts	0.31	0.29	0.30	0
Total Assets	62.23	62.83	62.14	61.84
Trade receivable as % of total assets	32	33	33	32

18. As per the ageing schedule provided in the annual report for FY 2021-22, trade receivables of Rs.19.2 crores were outstanding for more than 3 years as on March 31, 2022. Also, no provision was created against the said long outstanding trade receivables. Thus, clarification was sought from the company.

19. It was observed that trade receivables of Rs. 3.68 crores belonged to the Central and State governments and the remaining trade receivables of Rs. 15.95 crores were GST unregistered debtors. Noticee 1 has provided the detailed breakup of Rs. 3.68 crores only. Accordingly, further clarification was sought with regard to the unregistered debtors. Details of unregistered debtors provided by Noticee 1 was provided to the Noticees.

20. Further, during the statement recorded on November 21, 2023, Mr. Pratik Lakhota (Chief Financial Officer & Whole Time Director) submitted that “*provision or a write off of the said debtors should have been made in FY 2021-22. However, due to accumulated losses, provision or write off was not made*”.

21. In view of the above, it was alleged that during the FY2021-22, the Noticee 1 did not recognize expected credit loss (ECL) on / to write off the debtors of Rs. 15.95 crores, in terms of IND-AS 109. Non-recognition of ECL on / no write off of the said debtors resulted in overstatement of debtors.

Non provisioning against long outstanding Loans:

22. It was observed that as on March 31, 2022, the company had Loans (Assets) of Rs. 19.01 crore which are 31 % of the total assets. Loans and total assets of the company over the last 5 financial years are tabulated below:

Rs. In crores

Particulars	FY 2017 -18	FY 2018 -19	FY 2019 -20	FY 2020 -21	FY 2021 -22
Non- Current Assets: Loans	18.90	18.86	18.85	18.90	19.01
Total Assets	62.29	62.23	62.83	62.14	61.84
Loans to total Assets in %	30	30	30	30	31

23. On analysis of the notes to accounts indicates that these loans were classified as ‘Loan to Others’. Hence, clarification was sought from the Noticee 1. The company

vide letter dated December 12, 2022, inter - alia, submitted the following to the NSE:

‘Total loan given of Rs.19.01 Cr., a loan amount of 17.49 Cr is Loan given to Herald Commerce Ltd which is due for more than 20 years and we have communicated several times with them regarding the recovery of the same. But no response had been received from their side. Hence the management of the company are planning to recover the same by way of moving to NCLT.’

24. As per response of the Noticee 1, it was alleged that, 92% of the total loans were given to Herald Commerce Limited (hereinafter referred to as ‘HCL’) and even after several communications regarding recovery, no reply was received from HCL. Further, the management of the company were planning to recover the same by moving to NCLT. It was also observed that despite the non-recovery of loan for last 20 years, Noticee 1 had not made any provision on loans given to HCL in FY 2021-22.

25. Therefore, it was alleged that during the FY2021-22, Noticee 1 did not recognize the expected credit losses on the loan commitments of Rs. 17.49 crores outstanding from Herald Commerce Limited (HCL), in terms of IND-AS 109. Therefore, the company overstated the loan in the financial statement.

Analysis of Investment in subsidiary

26. It was alleged that Noticee 1 invested Rs. 1.84 crore in its wholly owned subsidiary ELCC Info. Com Limited. On analyzing the subsidiary's financials, it was found that it had given further advances of Rs. 1.5 crores. The company provided a breakup of advances of Rs. 1.49 crores given by its subsidiary. Which is tabulated below:

Rs. In crores

Sr. no.	Particulars	Amount
1	LCC Infotech Limited	0.88
2	Seac Design Studio Pvt Ltd	0.23
3	Padmavahini Safetech Pvt Ltd	0.21
4	Maa Tarini Ashirbad Hotel Pvt Ltd	0.16

Sr. no.	Particulars	Amount
5	Sunil Kumar Poddar	0.04
	Total	1.49

27. As per the above table, ELCC Info. Com Ltd provided an advance of Rs. 0.88 crore to LCC Infotech Ltd. (listed entity). This amount of Rs. 0.88 crores was not disclosed in the annual report of the listed entity for the FY 2021-22.
28. The company should have disclosed the amount of Rs. 0.88 crores received as an advance from the subsidiary in the Related Party Transaction (hereinafter referred to as “**RPT**”). Accordingly, it was concluded that non-disclosure of RPTs pertaining to subsidiary resulted in misrepresentation/misstatement of the company’s financial statements to the tune of Rs. 0.88 crore for FY 2021-22. Further, the same also resulted in violation of Regulation 34 (3) of SEBI (LODR) Regulations 2015.
29. Further, as per MCA records, other companies to whom advances were given by the subsidiary viz. Seac Design Studio Pvt. Ltd., Padmavahini Safetech Pvt. Ltd., Maa Tarini Ashirbad Hotel Pvt. Ltd were struck off companies. However, the subsidiary did not make any provision against them.
30. It was observed that the subsidiary did not recognize any Expected Credit Loss (“**ECL**”) for the abovementioned advances as per the applicable provision of IND AS 109 which inter alia state that an entity is required to recognize a loss allowance for expected credit losses on a financial asset that is measured in at amortized cost. Further, it also says that the objective of the impairment requirements is to recognize lifetime expected credit losses for all financial instruments for which, there have been significant increases in credit risk since initial recognition-whether assessed on an Individual or collective basis – considering all reasonable and supportable information, including that which is forward-looking.

31. In view of the above, credit loss was clearly evident considering the companies Seac Design Studio Pvt Ltd, Padmavahini Safetech Pvt Ltd, Maa Tarini Ashirbad Hotel Pvt Ltd to which advances were struck off by the Registrar of Companies (ROC). Accordingly, subsidiary should have made ECL of Rs. 0.60 crores as per Ind AS 109 on March 31, 2022.

32. Since the assets (advances) of subsidiary had been deteriorated. The same also impacted the investment made by the LCC in the subsidiary company of Rs. 1.84 crores. Further, subsidiary company did not report any revenue in FY 2019-20, FY 2020-21 and FY 2021-22. Financial details of the subsidiary is tabulated below:

(Rs. In crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22
Revenue from operation	NIL	NIL	NIL
Net profit	(62000)	(10000)	(11000)
Share Capital	18,420,000	18,420,000	18,420,000
Net worth	14,866,000	14,856,000	14,845,000
Long-term Loans & Advances	14,960,000	14,960,000	14,960,000

33. In this regard, the relevant provisions of IND AS 36 for assessing the impairment of the said Investment amounts *inter-alia* state as follows:

i. IND AS 36: (*Impairment of Assets*)

- Clause 8 of IND AS 36 provides that *an asset is impaired when its carrying amount exceeds its recoverable amount.*
- Clause 12 of IND AS 36 provides that in assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:
 - (a)
 - (b) ...
 - (c) ...
 - (d) *the carrying amount of the net assets of the entity is more than its market capitalisation*
 - (e) *evidence is available of obsolescence or physical damage of an asset.*

34. The above-mentioned provisions clearly provide that assets need to be impaired if the carrying value of the assets is more than its recoverable amount. In the instant

case, the carrying amount of investment in subsidiary was 1.84 crores as on March 31, 2022. The recoverable amount from its investment in the subsidiary reduced by Rs. 0.60 crores due to the unrecoverable advances of the subsidiary. Therefore, it was alleged that, LCC did not make an impairment on the investment made in the subsidiary for Rs. 0.60 crores in FY 2021-22, as per Ind AS 36.

Disclosure of related party transaction:

35. As per investigation report, it was alleged that complete disclosure of related party transactions were not disclosed in the annual report of the FYs 2019-20 and 2020-21 as the Noticee 1 did not provide opening balance, transactions executed during the year, nature of transactions and closing balance. Extract of the RPT disclosure in the Annual Report of FY 2019-20 and 2020-21 is as under:

FY 2019-20	
(b) Details of Related Party Transaction :	
	Amount Rs. (In Lakhs)
Mrs. Kirti Lakhotia	5.68
Mr. Sidharth Lakhotia	17.40
Mr. Prashant Lakhotia	12.75

FY 2020-21	
Details of Related Party Transaction :	
	Amount Rs. (In Lakhs)
Mrs. Kirti Lakhotia	29.68
Mr. Sidharth Lakhotia	40.67
Mr. Pratik Lakhotia	15.64
Mr. Prashant Lakhotia	18.39

36. As the Noticee 1 did not provide all these details, as required under para 18 of IND AS 24, in its annual reports of the FY 2019-20 and FY 2020 – 21, it was alleged that Noticee 1 is not in compliance with the para 18 of IND AS 24. Therefore, it was alleged that this act of non-compliance with Ind AS was also in violation of Regulation 34 (3) of SEBI (LODR) Regulations 2015.

37. In view of the above, it was alleged that the Noticees violated the below mentioned provisions of SEBI (LODR) Regulations, 2015 and SEBI Act, 1992:

a) Violations committed by the Company (Noticee 1):

- i. LCC allegedly did not comply with notified and applicable accounting standards with respect to loan, investments and debtors in its financial statements for the FY 2021-22, hence, Noticee 1 was alleged to be in violation of Regulations 4(1), 4(2) e, 33(1) (a), 33(1) (c), 34(3) and 48 of the LODR Regulations.
- ii. LCC allegedly did not disclose related party transactions as per Ind AS 24 in the annual reports of the company, hence, Noticee 1 was alleged to be in in violation of Regulation 34 (3) of LODR Regulations.
- iii. On account of alleged misrepresentation of financial statements for FY 2021-22, not making provision / impairment on loans, debtors and investment as per applicable accounting standards and for not making certain disclosure pertaining to related party transactions in the annual report for the FYs 2019-20, FY 2020-21, and FY 2021-22, Noticee 1 was alleged to be in violation of Regulations 4(1), 4(2) e, 33(1) (a), 33(1) (c), 34(3) and 48 of the LODR Regulations.

b) Violations committed by Noticee 2

- i. Noticee 2 being Managing Director was in charge of the operations and decision-making process and therefore, responsible for the violation committed by the company. Accordingly, Noticee 2, allegedly did not perform her duties and obligations, which resulted in publication of misrepresented/misstated financial statements of LCC Infotech Limited.
- ii. On account of non-performing duties and obligations, it was alleged that Noticee 2 was allegedly in violation of Regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(ii)(8) and 4(2)(f)(iii)(7) of LODR Regulations; and Regulation 4(1), 4(2)e, 33(1)(a), 33(1)(c), 34(3) and 48 of SEBI (LODR) Regulations, 2015, read with Section 27 of SEBI Act, 1992.

c) Violations committed by Noticee 3 and Noticee 4

- i. Noticee 3 being Chief Executive Director of the company, was in charge of the operations and decision-making process of the company. Further, Noticee 4 being Chief Financial officer (CFO) and Whole-Time Director (WTD) of the company, was in charge of the financial functions/operations and decision-making process of the company. Therefore, Noticees 3 and 4 were allegedly responsible for the violation committed by the company.
- ii. Further, Noticee 3 and Noticee 4, allegedly furnished false certification to the board of directors stating, *“These statements together present a true and fair view of the Company’s affairs and are in compliance with existing accounting standards, applicable laws and regulations.”*
- iii. Accordingly, Noticee 3 and Noticee 4 did not perform their duties and obligations, which resulted in publication of misrepresented/misstated financial statements of LCC Infotech Limited. On account of non-performing duties and obligations, it was alleged that Noticee 3 and Noticee 4 were allegedly in violation of Regulations, 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(7), and 17(8) of LODR Regulations; and Regulation 4(1), 4(2)e, 33(1)(a), 33(1)(c), 34(3) and 48 of LODR Regulations read with Section 27 of SEBI Act, 1992.

d) Violations committed by Noticees 5, 6 and 7

- i. Noticees 5, 6 and 7 being members of audit committee did not exercise due diligence while approving the company’s financial statements of FY 2021-22 despite number of red flags viz., long pending debtors and loan, non-realizable investments. Therefore, it was alleged that Noticees 5, 6 and 7 did not perform their role as required under Regulation 18(3) of SEBI (LODR) Regulations, 2015, which resulted in publication of misrepresented / misstated financial statements of LCC.
- ii. On account of non-performing duties and obligations, it was alleged that Noticee 5, Noticee 6 and Noticee 7 were allegedly in violation of

Regulation 18 (3) r/w Para A of Part C of Schedule II of SEBI (LODR) Regulations, 2015.

38. Noticees furnished common submissions vide letter dated June 26, 2024, and the key contentions of the Noticees are summarised as under:

38.1. Noticees submit that a summon was issued by SEBI to all the directors of the company on October 23, 2023, in the various matter including the following:

- a) Investment in 57 unlisted companies.
- b) Loan to herald commerce.
- c) Outstanding debtors
- d) Related party Transactions.

38.2. In response to the said summon (placed on records), Noticees sent a reply clarifying all the matters along with the backup papers. Noticee 3 and 4 also personally appeared before Investigating Officer, SEBI on November 21, 2023, and made submission to all the queries and clarifications. After detail investigation, an order was issued by the Investigating Authority on February 24, 2024 (placed on records), whereby Noticees were asked to make certain rectifications in their books of accounts in the financial statement of 2023-24. As per the said order, Noticees have made all the necessary changes in books of account and financial statement for 2023-24. The financial results were submitted with the stock exchanges on May 22, 2024, after incorporating all the changes. Copy of the results is placed on records.

38.3. Noticees submit that the amounts shown under Loans and investments came in their books from the books from Arihant Finance and Housing Ltd as a result of Reverse Merger which happened in late 90's. As Arihant Housing was a NBFC so giving loans to corporates, making investments was one of its main business activities. Since then it is being carried in their books. Since

then all balance and investments are continuing in the books of accounts of LCC Infotech limited.

38.4. Noticees submit that there is unintentional omission and non-compliance of accounting standard in the books of accounts of the 2021-22. Noticees have made rectification in the financial statements of the Company in year 2023-24 and written off Investment in shares, unsecured loans and unrealizable debtors in the financial statement of 2023-24 as intimated amounts as advised by SEBI in the books of account of the Company. Further, as per order of Hon'ble NCLT order dated September 15, 2023, Noticees have written off loan receivable from Herald Commerce Limited. Copy of the Order of NCLT is placed on records. Noticees submitted that all the items have been accounted for during the financial year 2023-24.

38.5. As Arihant Housing was a NBFC so giving loans to corporates, making investments was one of its main business activities. Since then it is being carried in Company's books. Since then all balance and investments are continuing in the books of accounts of company LCC Infotech limited. Noticees intimated SEBI during the investigation and personal hearing about the aforesaid fact. Noticee's intention was never wrong, and neither Noticees tried to mislead or cheat or fraud with investors/shareholders.

CONSIDERATION OF ISSUES AND FINDINGS

39. I have carefully perused the charges levelled against the Noticees in the SCN, submissions made by the Noticees and material available on record. The issues that arise for consideration in the present case are as follows:

- I. Whether the Noticees have violated the provisions of the Act, Regulations and Circulars as indicated at Para 2?

- II. Does the violation, if any, attract monetary penalty under Section 15HB of the SEBI Act?
- III. If so, what would be the monetary penalty that can be imposed upon the Noticees taking into consideration the factors stipulated in Section 15-J of the SEBI Act read with Rule 5(2) of the SEBI Adjudication Rules?

40. The said provisions under which violations have been alleged against the Noticees are reproduced below:

SEBI (LODR) Regulations, 2015

Principles governing disclosures and obligations

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

- (a) Information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosure.*
- (b) The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.*
- (c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognized stock exchange(s) and investors is not misleading.*
- (d) The listed entity shall provide adequate and timely information to recognized stock exchange(s) and investors.*
- (e) The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made thereunder, are adequate, accurate, explicit, timely and presented in a simple language.*
- (f) Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by investors.*
- (g) The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognized stock exchange(s) in this regard and as may be applicable.*

- (h) The listed entity shall make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.*
- (i) Filings, reports, statements, documents and information which are event based or are filed periodically shall contain relevant information.*
- (j) Periodic filings, reports, statements, documents and information reports shall contain information that shall enable investors to track the performance of a listed entity over regular intervals of time and shall provide sufficient information to enable investors to assess the current status of a listed entity.*

Disclosure and transparency:

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

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

(ii) Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by users. (iii) Minutes of the meeting shall be maintained explicitly recording dissenting opinions, if any.

Financial results.

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

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

33(1) (c): *The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India: Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.*

Annual Report

34(3): *The annual report shall contain any other disclosures specified in Companies Act, 2013 along with other requirements as specified in Schedule V of these regulations.*

Accounting Standards.

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

Responsibilities of the board of directors:

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

(2) The board of directors and senior management shall conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture of good decision-making.

Key functions of the board of directors-

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

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

4(2) (f) (ii) (7): *Ensuring the integrity of the listed entity’s accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.*

4(2) (f) (ii) (8) : *Overseeing the process of disclosure and communications.*

other responsibilities

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

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

Principles governing disclosures and obligations.

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

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

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

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

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

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

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

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

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

(i) Filings, reports, statements, documents and information which are event based or are filed periodically shall contain relevant information. (j) Periodic filings, reports, statements, documents and information reports shall contain information that shall enable investors to track the performance of a listed entity over regular intervals of time and shall provide sufficient information to enable investors to assess the current status of a listed entity.

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

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

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

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

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

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

33(1) (c) The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India: Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

34(3) The annual report shall contain any other disclosures specified in Companies Act, 2013 along with other requirements as specified in Schedule V of these regulations.

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

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.

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

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) recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;
- (3) approval of payment to statutory auditors for any other services rendered by the statutory auditors;

- (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;
- (6) reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a408[public issue or rights issue or preferential issue or qualified institutions placement], and making appropriate recommendations to the board to take up steps in this matter;
- (7) reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
- (8) approval or any subsequent modification of transactions of the listed entity with related parties;
- (9) scrutiny of inter-corporate loans and investments;
- (10) valuation of undertakings or assets of the listed entity, wherever it is necessary;
- (11) Evaluation of internal financial controls and risk management systems ;(
- (12) reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- (13) reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the

- official heading the department, reporting structure coverage and frequency of internal audit;
- (14) discussion with internal auditors of any significant findings and follow up there on;
 - (15) reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
 - (16) discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
 - (17) to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
 - (18) to review the functioning of the whistle blower mechanism;
 - (19) approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
 - (20) Carrying out any other function as is mentioned in the terms of reference of the audit committee.⁴⁰⁹
 - (21) [(21) reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision.]⁴¹⁰
 - (22) [(22) consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders.]”

SEBI Act, 1992.

27. (1) Where 164[a contravention of any of the provisions of this Act or any rule, regulation, direction or order made thereunder] has been committed by a company, every person who at the time the 165[contravention] was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the 166[contravention] and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the

167[contravention] was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such 168[contravention].

(2) Notwithstanding anything contained in sub-section (1), where an 169[contravention] under this Act has been committed by a company and it is proved that the 170[contravention] has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the 171[contravention] and shall be liable to be proceeded against and punished accordingly.

Explanation : For the purposes of this section,— (a) “company” means any body corporate and includes a firm or other association of individuals; and (b) “director”, in relation to a firm, means a partner in the firm.

41. Based on perusal of the material available on record and giving regard to the facts and submission of the Noticees and circumstances of the case, I record my findings hereunder:

Issue I. Whether the Noticees have violated the provisions of the Act, Regulations and Circulars as indicated at Para 2?

42. I note that the essentially Noticee 1 is alleged to have misrepresented its financial statements for FY 2021-22, by not making provision/impairment on loans, debtors and investment as per applicable accounting standard and has not made certain disclosure pertaining to related party transactions in the annual report for the FYs 2019-20, FY 2020-21 and FY 2021-22.
43. Further, in respect to the charges alleged in the SCN, mainly the contention of the Noticees are as follows:

- 43.1. The loans and investments in their books originated from Arihant Finance and Housing Ltd. following a reverse merger in the late 1990s. As Arihant Housing was an NBFC, loans to corporates and investments were part of its main business, and these balances have since continued in LCC Infotech Ltd.'s books.
- 43.2. The Noticees acknowledged unintentional omission and non-compliance with accounting standards in 2021-22 but claim to have since rectified the financial statements in 2023-24 by writing off investments, unsecured loans, and unrealizable debtors. They also wrote off the loan receivable from Herald Commerce Limited per an NCLT order dated September 15, 2023.
- 43.3. The Noticees assert that they informed SEBI of these facts during the investigation and hearing, maintaining that their intentions were never fraudulent or misleading towards investors or shareholders.
44. In view of the above, I observe that the Noticees have not provided any substantive defense addressing the specific findings of the investigation or the violations outlined in the SCN. Instead, they have acknowledged certain unintentional omissions and non-compliances with accounting standards during the financial year 2021-22. Given these circumstances, I shall proceed to examine the alleged violations in detail, addressing each individually in the following paragraphs.

Allegation wrt investment in 57 companies

45. I note that the allegation is that Noticee 1 had investments in 57 unlisted companies that were struck off or non-active on the MCA portal. Despite this, the company valued these investments at amortized cost rather than at fair value, contrary to the principles of Ind AS 109. Despite movements in investments in prior years, the company did not make any write-offs in FY 2021-22, allegedly to avoid reporting further losses due to its accumulated operational losses. By not recognizing

Expected Credit Loss (ECL), the company was alleged of overstating its investment value of ₹16.79 crores.

46. I note that the allegation that the investments were not impaired despite their lack of value aligns with Ind AS 109's requirement for fair value measurement and impairment for financial assets measured at amortized cost. The company's contention that the investments originated from an NBFC does not exempt it from applying Ind AS 109's impairment requirements, particularly when the investee companies are no longer active or have been struck off. The defense based on historical business practices is misplaced, as the accounting standards applicable at the time (Ind AS) take precedence.

47. Further I note that the Noticees' failure to recognize ECL in FY 2021-22 is a significant issue. According to Ind AS 109, financial assets measured at amortized cost must be reviewed for impairment, even if the company has operational losses. The omission of such recognition resulted in the overstatement of investments. The Noticees have acknowledged this omission, but correcting it only in FY 2023-24 does not absolve the failure to comply in FY 2021-22, especially when the impairment or write-off should have been done in FY 2021-22.

Non provisioning against long outstanding Trade Receivables:

48. I note that the Noticee 1 had trade receivables of ₹19.64 crores, which constituted 32% of the company's total assets. These receivables had been outstanding for more than three years, with no provision made against them, despite the requirements of Ind AS 109. Of the ₹19.64 crores, ₹3.68 crores were related to government entities, while ₹15.95 crores were from unregistered debtors (not registered for GST). Further, the Chief Financial Officer (CFO) admitted that a provision or write-off should have been made in FY 2021-22, but it was not done due to accumulated operational losses. Therefore, it is alleged that by not recognizing the ECL or writing off the ₹15.95 crores in long-outstanding debtors,

the company overstated its receivables, thereby inflating its assets in contravention of Ind AS 109.

49. I note that Ind AS 109 mandates the recognition of ECL for financial assets such as trade receivables, especially those that have been outstanding for an extended period. The Noticees' failure to provide for these receivables in FY 2021-22 constitutes non-compliance with this requirement, as receivables outstanding for more than three years are highly likely to be impaired. The CFO's statement that no provision or write-off was made due to operational losses cannot be an acceptable reason under accounting standards. ECL recognition should have been independent of the company's profitability or losses.

50. I also note that with trade receivables constituting 32% of the company's total assets, the lack of provisioning significantly affected the company's financial statements. Not recognizing the ECL for the ₹15.95 crores of unregistered debtors (non-government-related receivables) implies an overstatement of assets, which misrepresents the company's financial position to investors and other stakeholders.

51. While the Noticees claim that they rectified the financial statements in FY 2023-24 by writing off unrealizable debtors, there was delay in doing so. The Noticees' failure to recognize ECL in FY 2021-22 resulted in an inaccurate depiction of that year's financials, which could have impacted decisions made by shareholders and regulators. Rectification in a later year does not retroactively correct this non-compliance for the affected periods.

Non provisioning against long outstanding Loans:

52. I note that the allegation is that as of March 31, 2022, Noticee 1 had loans classified as "Loans to Others" amounting to ₹19.01 crores, which constituted 31% of the company's total assets. Out of this, ₹17.49 crores (92%) were loans given to HCL that had been outstanding for more than 20 years. Despite repeated

communications with HCL regarding the recovery of the loan, no response was received. Furthermore, no provision or impairment was made against the non-recovered loan in the FY 2021-22 financial statements, despite its long-standing nature. Therefore by not recognizing ECL on the ₹17.49 crore loan to HCL, LCC Infotech Ltd. violated the provisions of Ind AS 109. This failure resulted in the overstatement of the company's loan assets.

53. In this regard, I note that Ind AS 109 requires that loans be assessed for ECL based on both historical data and forward-looking information. In this case, the loan of ₹17.49 crores to HCL had been outstanding for over 20 years, with no repayment or communication from the borrower. Given this, the loan qualifies as a credit-impaired financial asset, and under Ind AS 109, the company should have recognized an impairment or provided for expected credit losses in FY 2021-22.

54. Further, the absence of repayment over two decades, coupled with a lack of response from HCL, were clear indicators of credit impairment. The company's delay in seeking legal recourse (only planning to move to the NCLT in 2022) further weakens its stand.

55. The ₹17.49 crore loan constituted 92% of the company's total loans and 28% of its total assets as of March 31, 2022. The failure to provide for this loan significantly inflated the company's assets and presented an inaccurate picture of its financial health. Not recognizing the impairment violated the principles of Ind AS 1 (Presentation of Financial Statements), which requires financial statements to provide a true and fair view.

56. I note that the Noticees indicated plans to move to the National Company Law Tribunal (NCLT) to recover the loan. While this may be a valid legal approach, it does not affect the requirement to recognize credit impairment in the financial statements. The fact that the company had been planning to pursue recovery for

more than 20 years without success is a strong indication that the loan was impaired long before FY 2021-22. The CFO's defense that the company did not make provisions due to accumulated losses is not a valid justification under Ind AS 109. ECL must be recognized regardless of the company's financial condition.

57. While the Noticees claim to have rectified the issue by writing off loans in FY 2023-24, this correction does not absolve them from non-compliance in FY 2021-22. Further, rectifying the error in a later period does not change the fact that the company failed to recognize expected credit losses when required. The failure to do so resulted in the overstatement of assets, violating key accounting principles.

Analysis of Investment in subsidiary

58. I note that the allegation is that Noticee 1, invested ₹1.84 crores in its wholly owned subsidiary, ELCC Info Com Ltd. On analysis, it was found that the subsidiary had advanced ₹1.49 crores to various entities, including ₹0.88 crores to LCC Infotech Ltd. (the parent company). The advance of ₹0.88 crores given by the subsidiary to LCC Infotech Ltd. was not disclosed as a Related Party Transaction (RPT) in the financial statements for FY 2021-22, resulting in the alleged violation of Regulation 34 (3) of SEBI (LODR) Regulations, 2015.
59. Further, the subsidiary advanced funds to three companies, Seac Design Studio Pvt. Ltd., Padmavahini Safetech Pvt. Ltd., and Maa Tarini Ashirbad Hotel Pvt. Ltd., all of which were struck off by the Registrar of Companies (ROC). The subsidiary failed to recognize ECL for these advances in compliance with Ind AS 109, leading to the alleged overstatement of assets by ₹0.60 crores. Given the subsidiary's financial deterioration and lack of revenue generation over multiple financial years, it was alleged that Noticee 1 should have impaired its investment in the subsidiary by ₹0.60 crores in accordance with Ind AS 36 (Impairment of Assets). This impairment was necessary as the subsidiary's financial health had deteriorated, which would affect the recoverability of the parent company's investment.

60. In this regard, I note that the LODR Regulations require listed entities to disclose all RPTs in their financial statements. The ₹0.88 crore advance from the subsidiary ELCC Info Com Ltd. to LCC Infotech Ltd. should have been disclosed as an RPT. The failure to disclose this transaction represents a material misstatement because it obscures the nature of transactions between the parent company and its subsidiary, which could impact investors' understanding of the company's financial position and related party dealings. The Noticees' contention of an oversight does not absolve them of their responsibility to comply with the SEBI regulations. The lack of disclosure represents non-compliance with Regulation 34 (3), resulting in misrepresentation of the company's financial statements.
61. I also note that Ind AS 109 requires entities to recognize ECL for financial assets measured at amortized cost, such as advances. Given that the advances were made to companies that were struck off by the ROC, it is evident that the credit risk associated with these advances had significantly increased. This should have prompted the subsidiary to recognize an ECL of ₹0.60 crores.
62. The Noticees' failure to recognize the ECL in FY 2021-22 is a clear violation of Ind AS 109, and their post hoc rectification does not address the issue of non-compliance in the relevant financial period.
63. The provisions of Ind AS 36 require entities to assess whether their assets are impaired. One such trigger is when the carrying amount of a subsidiary's net assets exceeds the recoverable amount due to financial deterioration. In this case, the subsidiary reported no revenue over the past three financial years and had significant advances that were unlikely to be recovered (due to the companies being struck off). As a result of the unrecoverable advances and the poor financial performance of the subsidiary, the recoverable amount of the investment was

reduced by ₹0.60 crores. The parent company, LCC Infotech Ltd., should have impaired its investment in the subsidiary by this amount, as required by Ind AS 36.

64. The Noticees' contention that the non-disclosure and failure to recognize provisions were due to oversight does not hold up under the scrutiny of the applicable accounting standards and SEBI regulations. The non-disclosure of RPTs, failure to recognize ECL on advances to struck-off companies, and the absence of an impairment on the parent's investment in the subsidiary in FY 2021-22 resulted in significant misstatements of the financial statements.
65. The SEBI (LODR) Regulation 34 (3) violation is clear due to the non-disclosure of the ₹0.88 crore advance. The non-recognition of ECL for advances to struck-off companies violated Ind AS 109. The failure to impair the investment in the subsidiary, despite clear signs of financial deterioration, violated Ind AS 36.

Disclosure of related party transaction:

66. I note that the allegation is that Noticee 1 failed to provide complete disclosure of RPTs in its annual reports for FY 2019-20 and FY 2020-21. Specifically, the disclosures lacked essential details such as the opening balance, transactions executed during the year, the nature of transactions, and the closing balance, as required under Paragraph 18 of Ind AS 24 (Related Party Disclosures). The non-compliance with Ind AS 24 also constituted a violation of Regulation 34 (3) of the SEBI (LODR) Regulations, 2015, which requires listed entities to make disclosures as per the applicable accounting standards.
67. I note that the Paragraph 18 of Ind AS 24 mandates that an entity must disclose not only the aggregate amount of related party transactions but also the nature of the relationship, the amount of the transactions, the opening and closing balances of the transactions, and any terms or conditions attached to them. This

comprehensive disclosure is crucial for providing stakeholders with a full understanding of the entity's financial dealings with related parties.

68. The absence of critical information, such as the opening balance, closing balance, and nature of the transactions, limits the ability of investors, regulators, and other stakeholders to assess the financial impact of these transactions on the company. This lack of detail can obscure the extent and nature of transactions between the entity and related parties, which may result in concerns over potential conflicts of interest or financial manipulation.
69. I note that the Noticees' contention that the omission was unintentional and that the information was available elsewhere does not absolve them from complying with the specific requirements of Ind AS 24. The standard requires detailed disclosures to ensure transparency, and the failure to provide these details represents non-compliance with the standard. Further, Regulation 34 (3) of the SEBI (LODR) Regulations, 2015 requires listed companies to make disclosures in accordance with applicable accounting standards. Ind AS 24 is one such accounting standard, and compliance with its disclosure requirements is mandatory for ensuring the integrity of financial reporting. The failure to comply with Ind AS 24 in the annual reports for FY 2019-20 and FY 2020-21 constitutes a direct violation of Regulation 34 (3).
70. In view of the discussion above, I find that the Noticee 1 misrepresented its financial statements for FY 2021-22, by not making provision/impairment on loans, debtors and investment as per applicable accounting standard and has not made certain disclosure pertaining to related party transactions in the annual report for the FYs 2019-20, FY 2020-21 and FY 2021-22.

Violations by Noticee 1:

71. In view of the observations discussed in paragraphs above, I find that:

- 71.1. Noticee 1 misrepresentation of financial statements and failure to comply with applicable accounting standards regarding loans, investments, and debtors in its financial statements for FY 2021-22 contravenes the cited LODR Regulations. Therefore Noticee 1 is in violation of Regulations 4(1) (governing integrity of financial reporting), 4(2)(e) (requiring listed entities to ensure accurate disclosures), 33(1)(a) (requiring financial results to be prepared per accounting standards), 33(1)(c) (requiring financial results to be prepared per accounting standards), 34(3) (annual reports to include financial information complying with accounting standards), and 48 (requirements for compliance with SEBI circulars and accounting standards).
- 71.2. Ind AS 24 mandates proper disclosure of RPTs in financial statements, and the Noticee 1 did not make such disclosures, therefore Noticee 1 is in violation of Regulation 34(3).

Violations by Noticee 2 (Managing Director):

72. Noticee 2, being in charge of operations and decision-making as Managing Director, failed to prevent the publication of misrepresented financial statements. Regulations 4(2)(f) outline the responsibilities the board of directors to ensure compliance and oversight in financial reporting. I note that the Noticee 2 held a fiduciary responsibility to ensure compliance with financial and accounting standards and compliance with LODR Regulations, and the violations established for Noticee 1, especially of Regulations 4(1), 4(2)(e), 33(1)(a), 33(1)(c), 34(3), and 48, indicates both active participation and passive negligence of Noticee 2. Hence, the in view of the Section 27 of the SEBI Act, Noticee 2 being in charge of and responsible for the company's conduct, the liability is extended and the violation of Regulation 4(1), 4(2)e, 33(1)(a), 33(1)(c), 34(3) and 48 of SEBI (LODR) Regulations, 2015 is established.

73. I note that the Noticee 2 being Managing Director, would have actively participated in the financial matters and the decision-making process. Noticee 2, as Managing Director, failed to ensure effective governance, given that Noticee 1's financial statements were misstated, and related party transactions were not disclosed. This points to a failure in monitoring and making necessary adjustments to the governance framework to ensure compliance with SEBI regulations, therefore the violation of Regulation 4(2)(f)(ii)(2) of LODR Regulations by Noticee 2 is established.
74. The failure to disclose related party transactions (RPTs) by Noticee 1, as required by Ind AS 24, is a clear conflict of interest that Noticee 2 was responsible for overseeing. By not managing this conflict effectively, Noticee 2 allowed for non-compliance with RPT disclosure requirements, which could have involved the misuse of corporate assets. Noticee 2 neglected to manage conflicts related to RPTs adequately, therefore the violation of Regulation 4(2)(f)(ii)(6) of LODR Regulations by Noticee 2 is established.
75. The financial misstatements, lack of provisions for impairment, and inadequate risk management systems indicate a failure in ensuring the integrity of the company's financial reporting systems. Noticee 2, as Managing Director, was responsible for ensuring the accuracy and compliance of financial reporting, and she failed to do so, therefore the violation of Regulation 4(2)(f)(ii)(7) of LODR Regulations by Noticee 2 is established.
76. Noticee 2 failed to oversee proper disclosures, including related party transactions and accurate financial statements, leading to non-compliance with disclosure norms. This violation is supported by the fact that key disclosures required under accounting standards and SEBI regulations were either misstated or omitted entirely. In view of the above, the violation of Regulation 4(2)(f)(ii)(8) of LODR Regulations by Noticee 2 is established.

77. As Managing Director, Noticee 2 had the responsibility to exercise independent judgment in overseeing the company's corporate affairs, including financial reporting and risk management. The failure to address red flags in financial statements and related party transactions demonstrates a lack of objective and independent judgment. In view of the above, the violation of Regulation 4(2)(f)(iii)(7) of LODR Regulations by Noticee 2 is established.

Violations by Noticee 3 and Noticee 4

78. Noticee 3 was Chief Executive Director and Whole Time Director, and Noticee 4 was Whole Time Director and Chief Financial Officer of the Noticee 1. Noticee 3 and 4 in their leadership roles being in charge of operations and decision-making, failed to prevent the publication of misrepresented financial statements. Regulations 4(2)(f) outline the responsibilities the board of directors to ensure compliance and oversight in financial reporting. I note that the Noticee 3 and 4 held fiduciary responsibility to ensure compliance with financial and accounting standards and compliance with LODR Regulations, and the violations established for Noticee 1, especially of Regulations 4(1), 4(2)(e), 33(1)(a), 33(1)(c), 34(3), and 48, indicates both active participation and passive negligence of Noticee 3 and 4. Hence, the in view of the Section 27 of the SEBI Act, the liability is extended to Noticee 3 and 4 and the violation of Regulation 4(1), 4(2)e, 33(1)(a), 33(1)(c), 34(3) and 48 of SEBI (LODR) Regulations, 2015 is established.
79. I also note that Noticee 3 and Noticee 4 furnished false certification to the board of directors, certifying that the financial statements presented a true and fair view, despite the evident misstatements and non-compliance with accounting standards. The provision of a false compliance certificate violates Regulation 17(8), as the Noticees 3 and 4 failed to ensure that the financial reports were accurate before

certifying them to the board. In view of the above, the Noticees 3 and 4 are in violation of Regulation 17(8) of LODR Regulations.

Violations by Noticee 5, 6 and 7

80. I note that the Noticee 5, 6 and 7 were Audit Committee members, and are alleged to have failed to exercise due diligence in approving financial statements which resulted in publication of misrepresented / misstated financial statements of Noticee 1. I note that the Regulation 18(3) mandates that the role of the audit committee includes oversight of the financial reporting process, ensuring the accuracy, sufficiency, and credibility of financial statements. It also includes scrutiny of loans, investments, and the integrity of financial reporting systems, as detailed in Part C of Schedule II.
81. I note that the long-pending debtors, non-realizable loans, and investments were significant red flags. As audit committee members, Noticees 5, 6, and 7 had a responsibility to review these financial irregularities during the approval of the company's financial statements. The Noticees failed to scrutinize and address these issues, therefore, the allegation of violating Regulation 18(3) read with Para A of Part C of Schedule II is established.

Issue II. Does the violation, if any, attract monetary penalty under Section 15HB of the SEBI Act?

82. In the light of findings and observations made against the Noticees brought out in the foregoing paragraphs, it is evident that the Noticees have violated the following regulatory provisions:
- 82.1. **Noticee 1:** Regulations 4(1), 4(2) e, 33(1) (a), 33(1) (c), 34(3) and 48 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as the "LODR Regulations")
- 82.2. **Noticee 2:** 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(ii)(8) and 4(2)(f)(iii)(7) of LODR Regulations; and Regulation 4(1), 4(2)e, 33(1)(a),

33(1)(c), 34(3) and 48 of LODR Regulations, read with Section 27 of SEBI Act, 1992.

82.3. **Noticee 3 and Noticee 4:** 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(6) 4(2)(f)(ii)(7), 4(2)(f)(ii)(8), 4(2)(f)(iii)(7), and 17(8) of LODR Regulations; and Regulation 4(1), 4(2)e, 33(1)(a), 33(1)(c), 34(3) and 48 of LODR Regulations read with Section 27 of SEBI Act, 1992.

82.4. **Noticees 5 to 7:** Regulation 18 (3) r/w Para A of Part C of Schedule II of LODR Regulations.

83. The aforesaid violations, makes the Noticees liable for penalty under Section 15 HB of the SEBI Act.

84. In this context, I would also like to refer to the order of the Hon'ble Supreme Court of India in the matter of Chairman, SEBI Vs Shriram Mutual Fund⁶ wherein Hon'ble Supreme Court of India held that *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant. A breach of civil obligation which attracts penalty in the nature of fine under the provisions of the Act and the Regulations would immediately attract the levy of penalty irrespective of the fact whether contravention must be made by the defaulter with guilty intention or not."*

85. The text of the above referred Section 15HB of SEBI Act is reproduced herein below:

Relevant provisions of SEBI Act:

Penalty for contravention where no separate penalty has been provided.

15HB. *Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no*

separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

Issue III. If so, what would be the monetary penalty that can be imposed upon the Noticees taking into consideration the factors stipulated in Section 15-J of the SEBI Act read with Rule 5(2) of the SEBI Adjudication Rules?

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

SEBI Act

Factors to be taken into account while adjudging quantum of penalty

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

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

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

87. In this case, from the material available on record, any quantifiable gain or unfair advantage accrued to the Noticees or the extent of loss suffered by the investors as a result of non-compliance to the provisions is not available. Further, from the material available on record, it is not possible to ascertain the exact monetary loss to the investors on account of violations by the Noticees. With respect to the repetitive nature of the default, I do not find anything on record.

88. The roles of the Noticees in the established violations indicate a fundamental breakdown in governance, compliance, and oversight responsibilities critical to

maintaining financial integrity and protecting investor interests. Noticee 1 misrepresented its financial statements for FY 2021-22, by not making provision/impairment on loans, debtors and investment as per applicable accounting standard and did not make certain disclosure pertaining to related party transactions in the annual report for the FYs 2019-20, FY 2020-21 and FY 2021-22. Noticee 2, as Managing Director, failed in her duty to ensure accurate financial reporting, neglected to oversee related party transactions effectively, and disregarded the necessary disclosures under SEBI's LODR regulations. By allowing misrepresentations in financial statements and omitting key disclosures, Noticee 2 not only compromised the company's transparency but also failed to uphold the fiduciary responsibility expected at her level. Similarly, Noticees 3 and 4, in their executive roles, endorsed inaccurate financial statements and provided false certifications, thus misleading the board and undermining accountability. Noticees 5, 6, and 7, as Audit Committee members, failed to scrutinize critical financial elements, including the review of significant non-performing assets and other red flags, reflecting a lack of due diligence. The violations by the Noticees are serious, therefore, should be dealt with sternly by imposing monetary penalty as effective deterrence.

ORDER

89. Considering all the facts and circumstances of the case including the submissions of the Noticees and exercising the powers conferred upon me under section 15-I of SEBI Act read with Rule 5 of the SEBI Adjudication Rules, I hereby impose the following monetary penalty under section 15HB of the SEBI Act on the Noticee:

Sr. No.	Name of the Noticee	Penalty Provisions	Amount of penalty (in ₹)
1	LCC Infotech Limited	Section 15HB of SEBI Act	₹ 6,00,000/- (Rupees Six Lakhs Only)
2	Mrs. Kirti Lakhotia		₹ 1,00,000/- (Rupees One Lakh Only)
3	Mr. Sidharth Lakhotia		₹ 1,00,000/- (Rupees One Lakh Only)

Sr. No.	Name of the Noticee	Penalty Provisions	Amount of penalty (in ₹)
4	Mr. Pratik Lakhotia		₹ 1,00,000/- (Rupees One Lakh Only)
5	Mr. Kamaljit Singh		₹ 1,00,000/- (Rupees One Lakh Only)
6	Mr. Rajat Sharma		₹ 1,00,000/- (Rupees One Lakh Only)
7	Mr. Mayur P. Shah		₹ 1,00,000/- (Rupees One Lakh Only)

In my view, the said penalty is commensurate with the violations committed by the Noticees in this case.

90. The Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → ORDERS → ORDERS OF AO → PAY NOW

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

92. In terms of Rule 6 of the SEBI Adjudication Rules, 1995, copy of this order is sent to the Noticees and also to the SEBI.

Place: Mumbai

ASHA SHETTY

Date: November 12, 2024

ADJUDICATING OFFICER