

Inside the SEBI files: Real World Investigations

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Regulatory Universe

- Listed Companies
- Proposed to be listed Companies

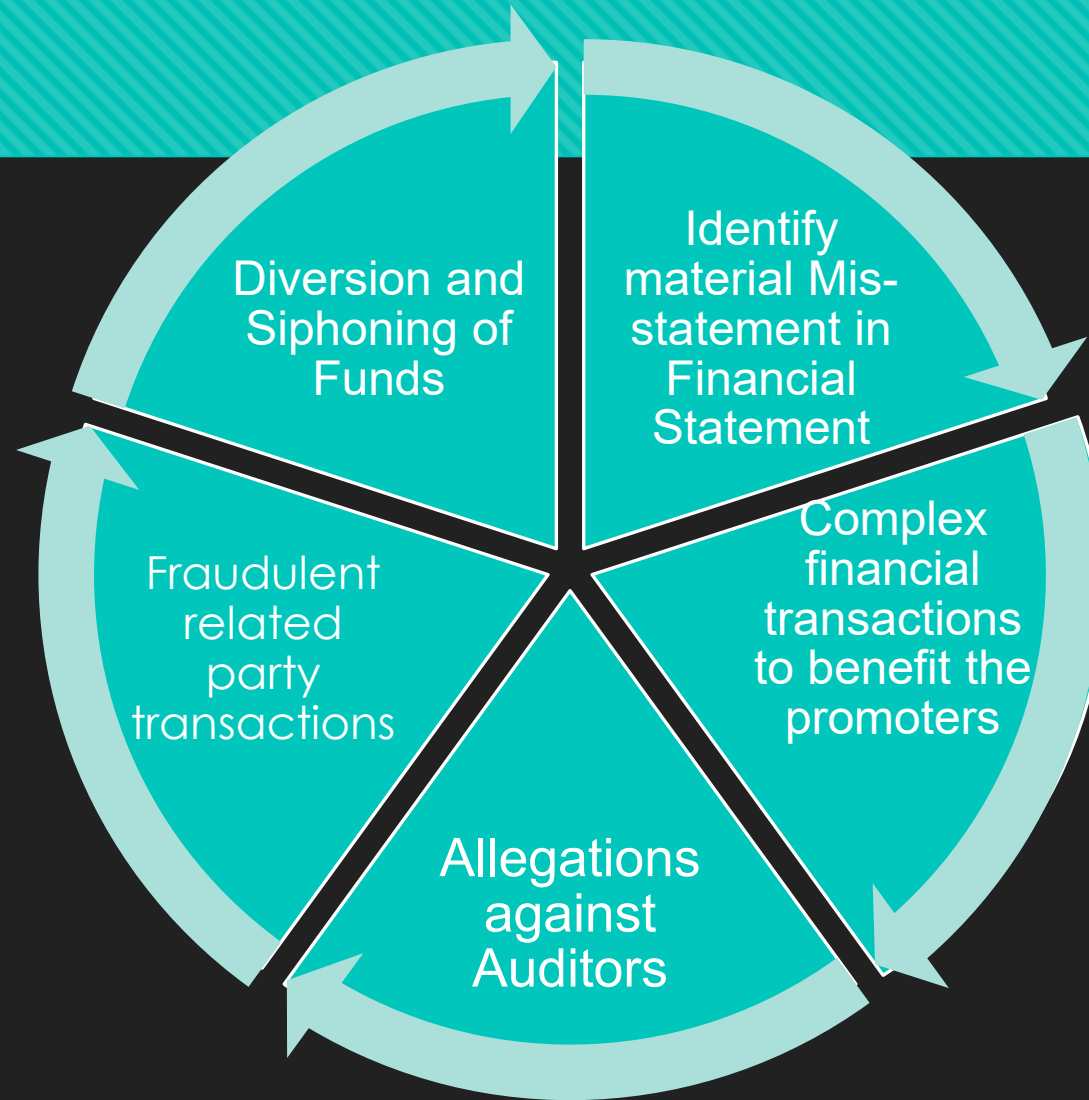
Pre listing phase

- Non Existent Suppliers/Customers
- Fictitious Objects of issue
- Material non-disclosure in offer document
- Overvaluation of assets and undervaluation of liabilities
- Transactions with related parties are not disclosed
- Fraudulent documentation
- Undisclosed Tax evasion, Legal cases, demands.
- Window dressing.

Post Listing

- Siphoning/diversion of funds - through transactions with connected/related parties, undisclosed bank accounts, under guise of loans/advances for business purpose
- Misrepresentation of financial statements by:
 - Fictitious sales and purchases, assets
 - Overstatement of expenses
 - Non-provisioning of interest
 - Non/wrong impairment of asset
 - Debt suppression/off-balance sheet fund raise
- Advances/payments to undisclosed related parties/group entities
- Misleading corporate announcements to inflate share prices
- Assets stripping by disposing the asset of at lower valuation to connected parties
- Misutilisation of funds raised by Company (IPO, FPO, Rights Issue, preferential issue)
- Project cost inflation

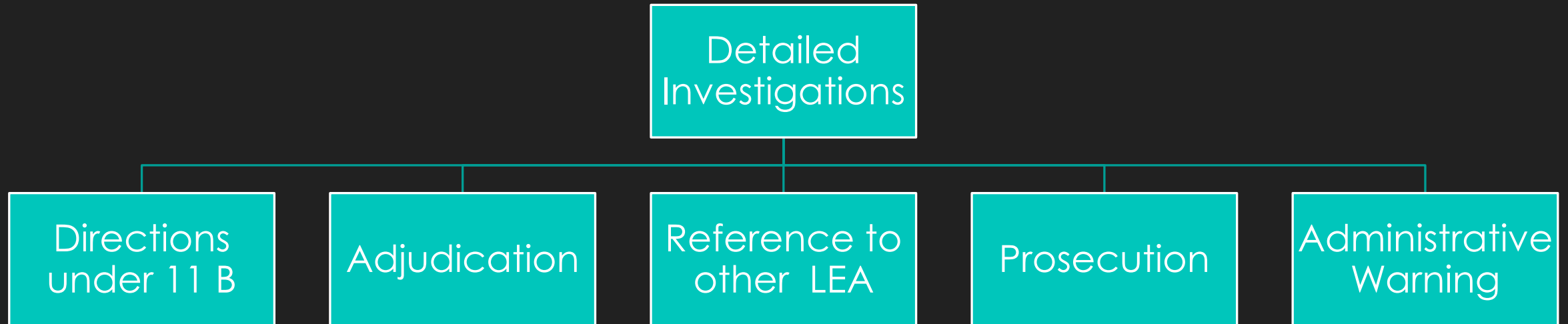
Mandate of SEBI's CFID



Dealing of References



Types of Action initiated by CFID



**Company engaged in Media
and Entertainment Business**

Case in Brief

Trigger/ Source

- Resignation of two Independent Directors in 2019

Background

- Letter of Comfort (LOC) by Chairman and promoter of company, towards credit facilities availed by promoter linked entities
- Appropriation of Rs. 200 crores FD of company by Yes Bank Ltd

Action taken by SEBI

- Barred current and ex-chairman from holding directorial positions in listed entities
- Company shall place this order before the board within 7 days

Reference to other agencies

MCA

NFRA

ED

CBDT

Key Allegations & Investigation Findings

- Rs. 200 crores of company's FD used to repay debts of promoter controlled entities.
- Company confirmed the receipt of Rs. 200 crores from associated entities.
- However, the funds had followed a **Circuitous route** where funds originated from company ultimately ended up with company.
- Payments from associated entities have been found to be a bogus book entries.
- Promoters Group were the direct beneficiaries of the aforesaid fund diversion.

Other Details

Fund Diversion

- No real net receipts of funds
- Rs.200 Crore diverted to promoter entities

Case Status

- Confirmatory order passed by SEBI on 14.08.2023

Action taken by NFRA

- Imposed monetary penalty of Rs. 2.15 crores; AND
- Debarred

Impact on Stakeholders

- Safeguarded the interest of existing shareholders and potential investors of company.
- Alerted other Law Enforcement Agencies.

**Company in the business of
Digital Marketing solutions**

Background

Background

- Company had global presence and engaged in Digital media businesses, Software services and Future technologies.
- Headquartered in India and has two Indian subsidiaries and 14 overseas subsidiaries.
- The Company had recorded an impairment loss of Rs.863.80 Cr in FY 2019-20.
- No disclosure regarding the events and circumstances that led to the recognition of such impairment of losses.
- Impairment was on account of “Introduction of General Data Protection Regulation (GDPR) Laws

Key Allegations & Investigation Findings

- **Irregularities in Preferential allotment** - Company raised INR 867.8 Cr from 82 allottees through preferential allotment and round tripped the funds to promoter through multiple layering.
- **Auditor Collusion in fraud** – Involved in the fabrication of information and falsification of accounts.
- **Mis-statements in Financial statements**
 - a) Revenue expenditure is treated as Capital Expenditure (Intangible assets)
 - b) Inappropriate disclosure and delay in recording of impairment of assets (863.80 cr)
- **Inconsistent Disclosure of Shareholding Pattern** - Promoters had reduced their shareholding from 40.45% to 3.51% but resorted to showing inflated shareholding.



Preferential Allotment

Modus
Operandi

- During FY 2020-21 & 2021-22, company raised Rs.867.8 crore from 82 allottees;
- Round-tripping of funds through a series of entities which helped route funds to the promoter group
- Applicants given full refund of money through layering transactions
- Submission of '*forged and fabricated bank statements*' to show receipt money against preferential allotment of shares.

Preferential Allotment

Modus
Operandi

- Preferential allottees, either not paid for the shares, made a part payment or got their money refunded.
- Entities categorized as promoter entities after the preferential allotment with the CMD making himself a partner in each of them- Circumvention of prescribed lock-in period for promoters.
- Statutory auditors colluded in the fabrication of information and falsification of accounts.
- RTA was an associate of the auditors of the company.

Role of statutory auditors

- Certificate issued by Statutory Auditor regarding receipt of funds;
- Failure to report Government in line with Section 143 of the Companies Act;
- Violation of eligibility norms for appointment of Statutory Auditors- Close association between Incoming Auditor and outgoing Auditor;
- Shareholders of the RTA related to the Auditor;
- Auditor held shares in the company

Action Initiated

Action taken
by SEBI

Final order –

- Debarring the company and Noticees from accessing and dealing in securities market.
- KMP are restrained from associated with listed entities and Intermediary registered with SEBI.
- Disseminate the financial statements of each of its Subsidiary on its website.
- Levied a Monetary penalty of 34 cr.
- The company was directed to publish correct shareholding patterns.

Reference to
other
agencies

MCA

NFRA

ED

Action Taken by Agencies

Impact on Stakeholders

- NFRA, ED and MCA initiated action on the basis of investigations.
- Lenders, Shareholders and potential investors of company

Case Status

- Matter is Sub-judice before SAT.

Action taken by other Agencies

NFRA

- Imposed monetary penalty of Rs. 80 lakhs on both auditors. AND
- Debarred the auditor for 10 years

ED

- Conducted searches at company's office .

MCA

- MCA ordered ROC to inspect books of accounts of group.

Company in the Beverage business

Case in Brief

Trigger/ Source

- Promoter's Suicide-financial scrutiny-SEBI's suo motto Investigation

Background

- Internal investigation by the company
- Fund diversion from subsidiaries of company to another promoter owned entity.

Action taken by SEBI

- Ordered Company to recover funds from promoter owned entity
- Company in consultation with NSE to appoint an Independent law firm for recovery
- Imposed monetary penalty of Rs. 26 crores

Reference to other agencies

NFRA



Key Allegations & Investigation Findings

- Fund diversion w/o board/audit committee approval
- Amount transferred from seven subsidiaries of Company to promoter owned entity
- No repayment plan; funds used for personal gains.
- Both companies are controlled by same family members
- Collapse of stock price from Rs. 225 to just Rs. 27.95 (fall of around 88%)
- Promoter owned entity was merely acting as a pass through entity for fund diversion

Other Details

Fund Diversion

- **Rs. 3,535 crores** through subsidiaries.

Case Status

- Matter is sub judice before SAT.



Action taken by NFRA

Against the Company Auditors

- Imposed a total monetary penalty of Rs. 16.05 crores & debarred

Against the subsidiaries and beneficiary promoter owned entity

- Imposed a total monetary penalty of Rs. 3.45crores and debarred

**Company in the business of Housing
finance**

Case in Brief

Trigger/ Source

Multiple Complaints alleging Diversion/siphoning of funds to group entities.

Background

- Company is a subsidiary of a large conglomerate.
- Advances General purpose corporate loans to connected entities violating the norms of NHB.

Action taken
by SEBI

Final order –

- Debarring the company and KMP from accessing and dealing in securities market.
- Imposed a total monetary penalty of 624.06 crore.

Reference to
other agencies

NFRA

Key Allegations & Investigation Findings

- Loan amounts of Rs. 5552.67 crore were approved on the date of application itself.
- Despite the company's boards decision to halt the loans, promoter in the capacity of Group Chairman has sanctioned the loans.
- Loans turned into NPAs
- Complete failure of corporate governance.
- Promoters and Promoter linked entities were beneficiaries of the funds diverted from company

Other Details

Case Status

- Matter is sub judice before SAT

Action taken by NFRA

- Imposed monetary penalty of Rs. 1.6 crores AND
- Debarred the auditors for 5 years

**SME Company Engaged in
various businesses**

Case in Brief

Trigger/ Source

- Complaints received from investor group before listing

Background

- Planned an IPO for SME listing - September 2024
- Oversubscribed 345.65 times raising Rs. 44.87 crores

Action taken by SEBI

Immediate – Interim order – Halting of listing at BSE and investigation initiated

Final Order subsequent to investigation

- a) Refund Ordered to the investors
- b) transfer of shares to a separate demat account by Depositories
- c) Company to take appropriate steps for cancelling the shares

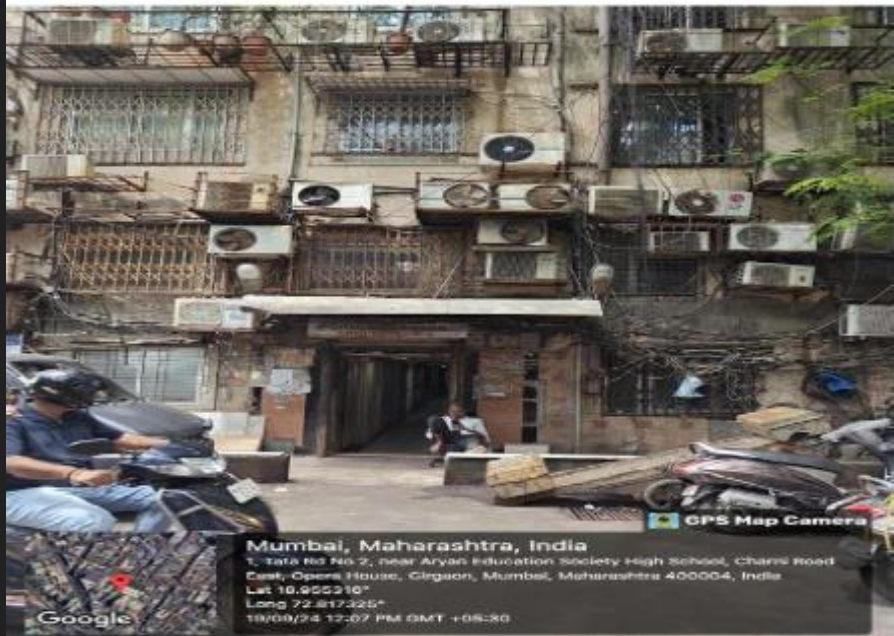
Reference to other agencies

MCA

NFRA

GST

Key Allegations & Investigation Findings



1. Misleading IPO Objects

- a) Out of 44.87 Cr to be raised, Rs. 17.7 Cr for purchasing software as per the objects of the issue
- a) Vendor being a paper company with no technical expertise and no history of handling similar projects.

2. Intent of fund diversion by devising a scheme-

- a) Misrepresented / fabricated financial statements (Inflation of revenue and purchases) in prospectus to the tune of Rs. 22 crores
- b) Understatement of expenses of Rs. 0.45 crores - disguising as "Advances"
- c) To Siphon off IPO proceeds in guise of purchasing the software from a shell entity

Other Details

Fund Diversion

- SEBI acted proactively and prevents the misuse of IPO funds

Case Status

- SAT upholds SEBI's order on Halting Listing

Impact on Stakeholders

- Prevented listing of dubious company
- Money refunded along with interest to the allottees
- Deterrence for other companies planning to raise capital fraudulently

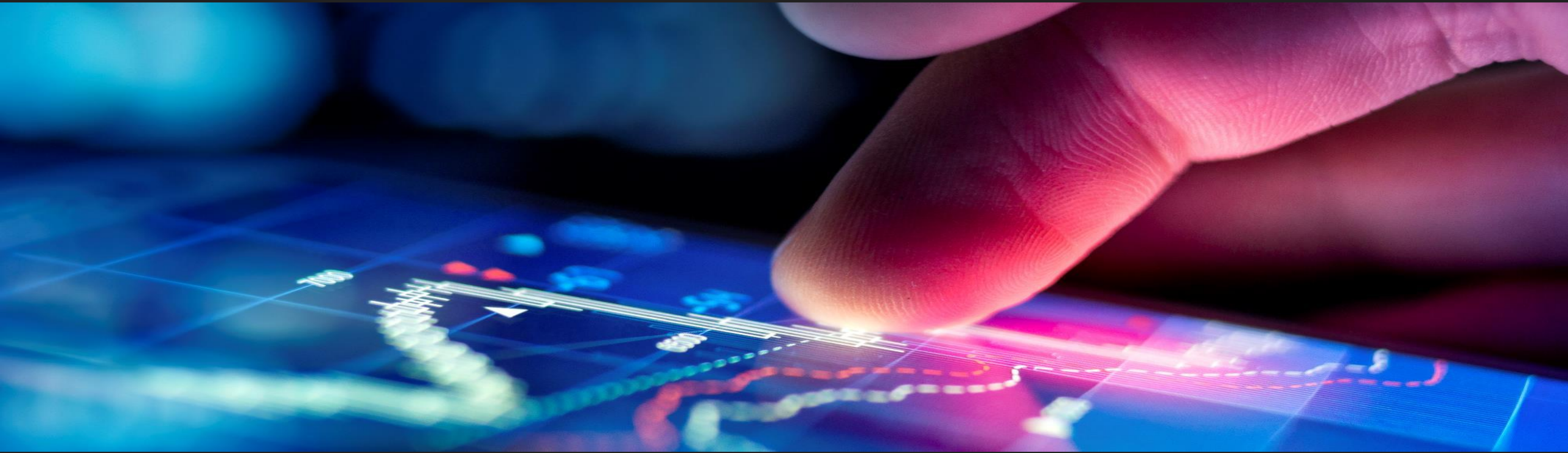
Early Fraud Indicators

Early fraud Indicators

- Sudden increase in revenue without corresponding changes in expenses or vice versa.
- Innovative accounting disclosures like revenue recognized based on probable acceptance of claims
- Unusual changes in the ratios (Growth in debtors higher than growth in revenue)
- A complex network of subsidiaries and special purpose entities.
- Complex notes to accounts and undisclosed legal contingencies (Compared to information from public domain)

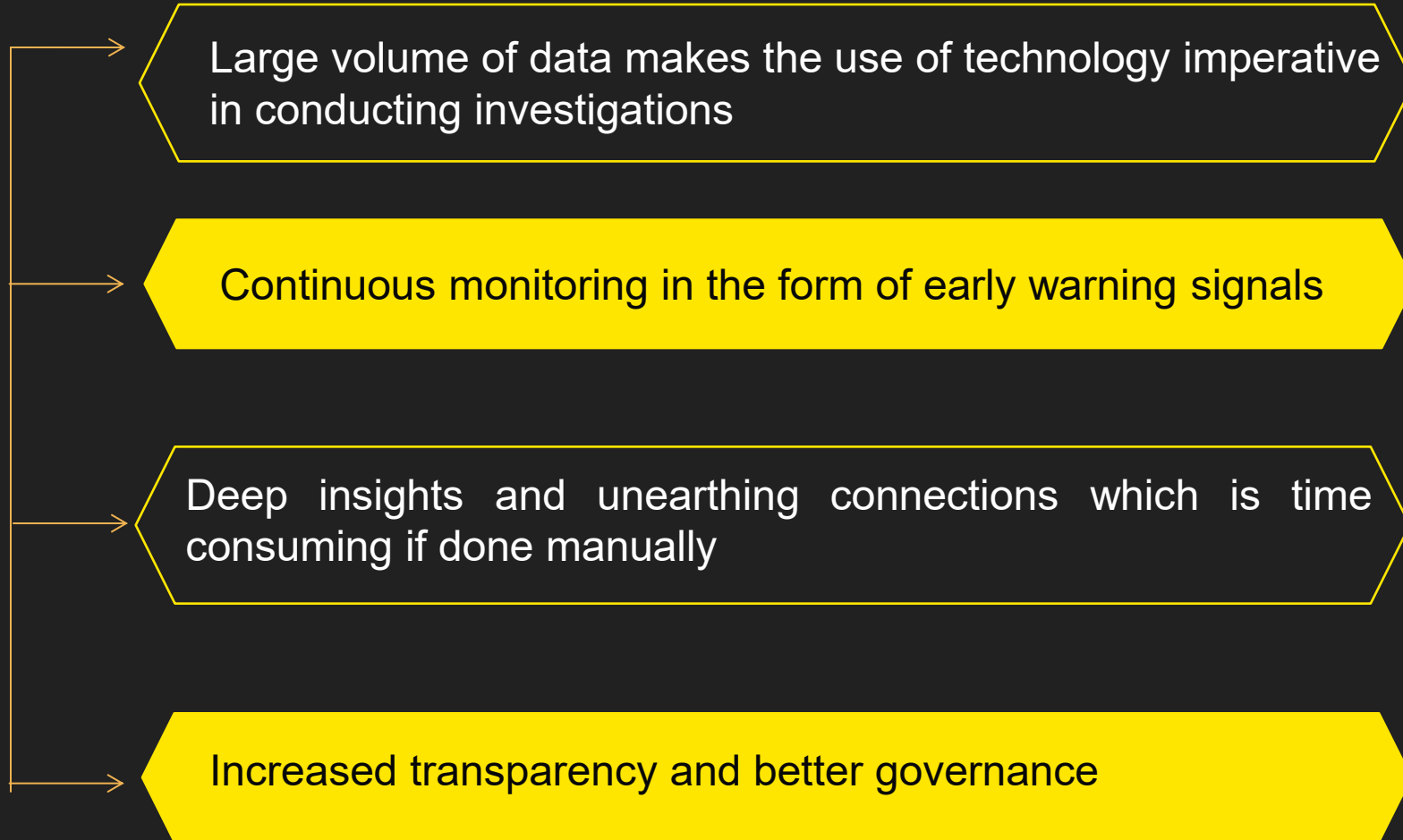
Early Fraud Indicators

- Unusual life style of management to corroborate with their known income sources.
- Resignation of independent Director/Auditors/KMPs
- Frequent changes in the auditors/KMPs
- High value and frequent transactions with Related party
- Reporting profit from operations however negative or negligible cash flow from operation activity .



Technology – A friend in Investigation

Need of technology in investigation



Innovative Approaches for investigation

Market Intelligence
Portal for sharing
information with
SEBI



Leveraging emerging
technology and use of
social media footprints
extensively for the
investigation



Early Warning
System – automated
alerts generated

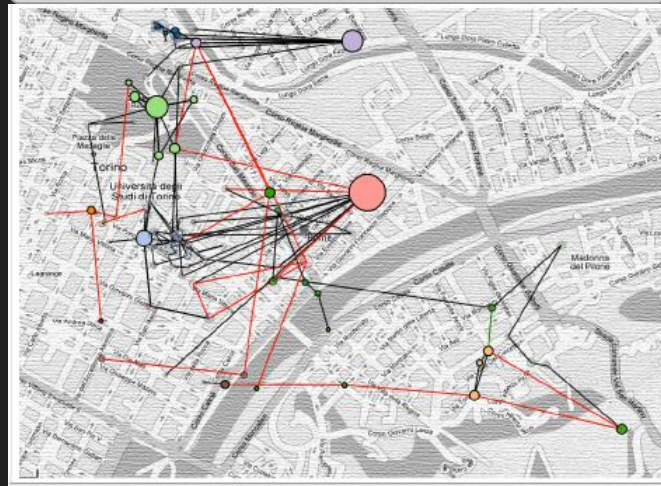


Innovative Approaches for investigation

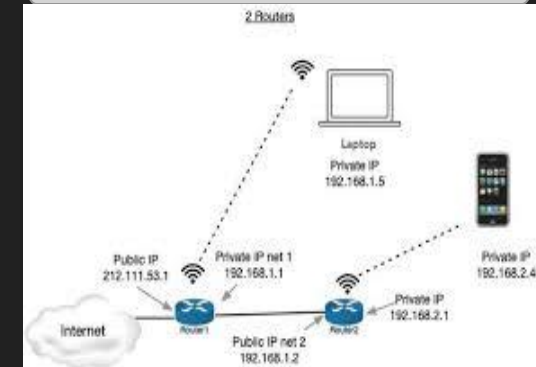
Software for bank statement analysis



Tower location and geo mapping to confirm presence and attendance in Audit Committee meetings



Use of IP addresses used by conduits and listed group companies for tax filings - to establish connections



Innovative Approaches for investigation

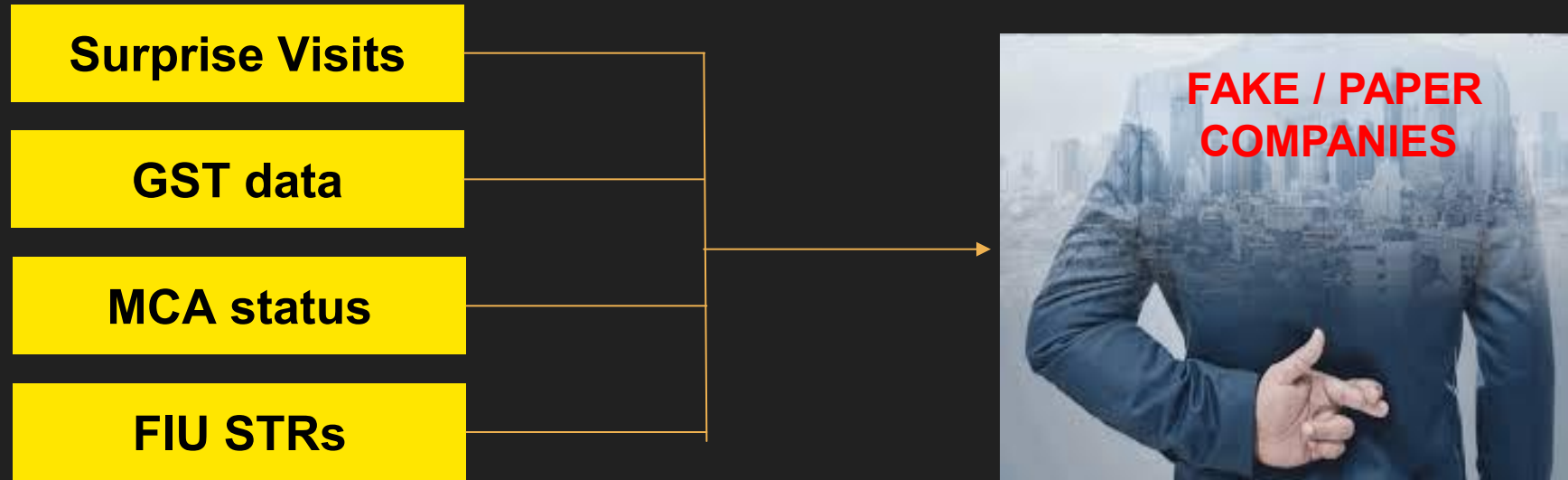
Use of IBBI Portal - To verify claims filed against the Company vis-à-vis disclosure made in the Annual Reports



Use of GST filings and bank statements to reconstruct financial statements in case of non cooperation by the companies



New methodologies for investigation



Data of audit working papers gathered from anonymous complainant by tracing the complainant by issuing summons to google

Ways to crosscheck

Filings of companies with the Stock Exchanges

News about the companies in the Media including social media

Public portals like MCA 21 , Screener ,Corpository , Zaubacorp, ToFler etc. to check complete details of the companies

Filings with the Foreign Regulators

Data Analytics Tools

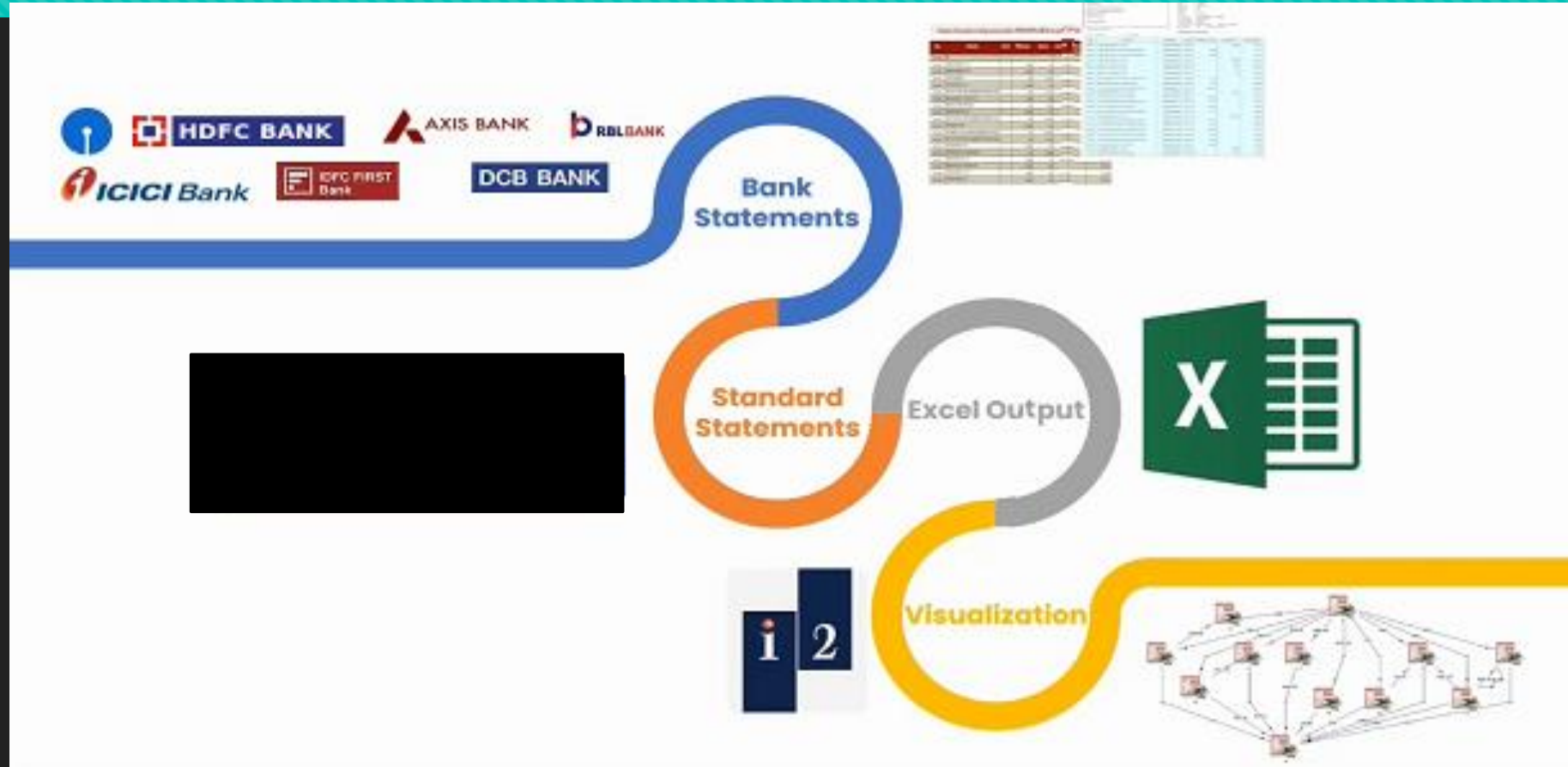
Tools	Use
Association Network using Graph Database	Link Analysis and Visualisation of Connections
i9 – iCube Solutions	Call Data Records and Tower dump analysis
Fund Trail Analysis Tool	Standardisation of bank statements and Fund Trail analysis
i2 Analyst Notebook	Visualisation of data (CDR , Fund Flow, Trade Data, KYC data etc.)
Email Parsing and Analysis Tool (Intella)	Collective analysis of multiple email dumps, Word cloud based analysis, concept search etc.

Association Network

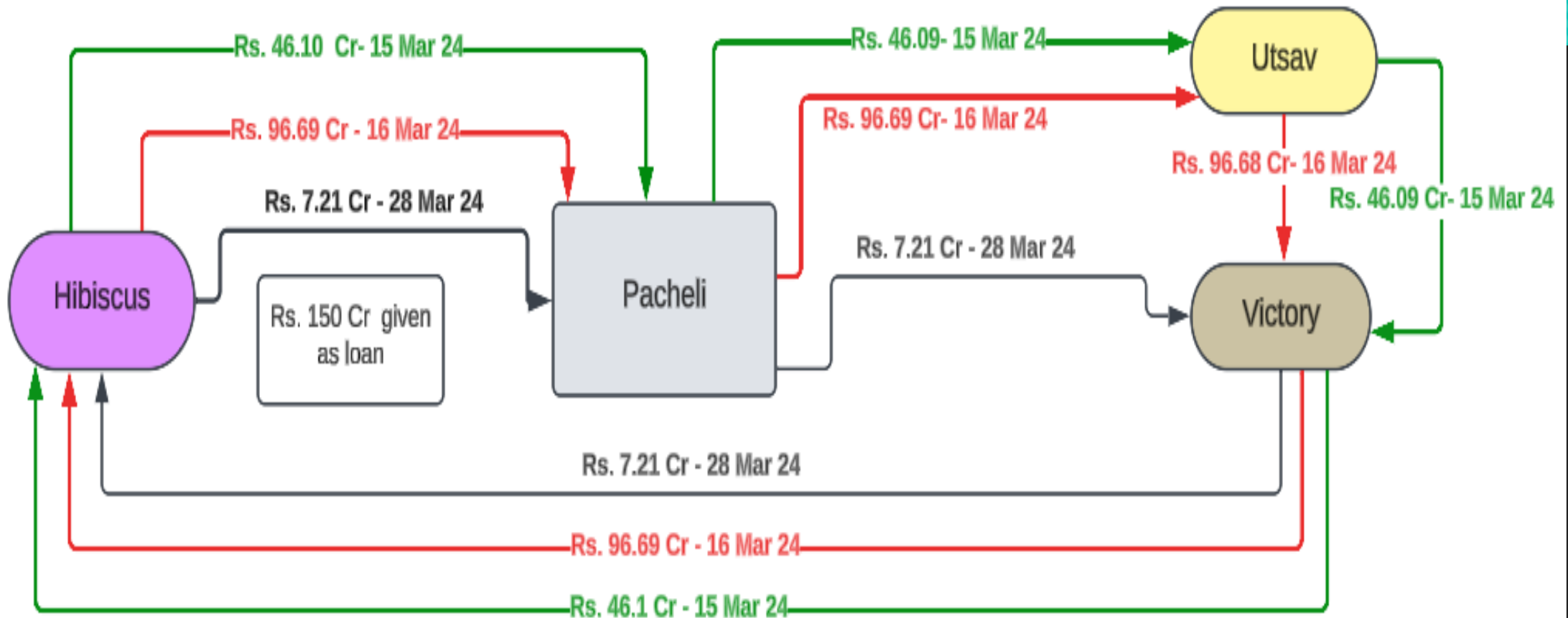
Data Set

- PAN
- Email
- Mobile Number
- Date of Birth
- Father Name
- Nominee
- Joint Holder
- Guardian
- Address
- SEBI registration Number
- SEBI Past Action
- Deemed Insider
- KMPs
- Authorized Person / Dealer
- NISM Certification
- Trading Terminal
- Directorship

Bank Statement and Fund Trail Analysis



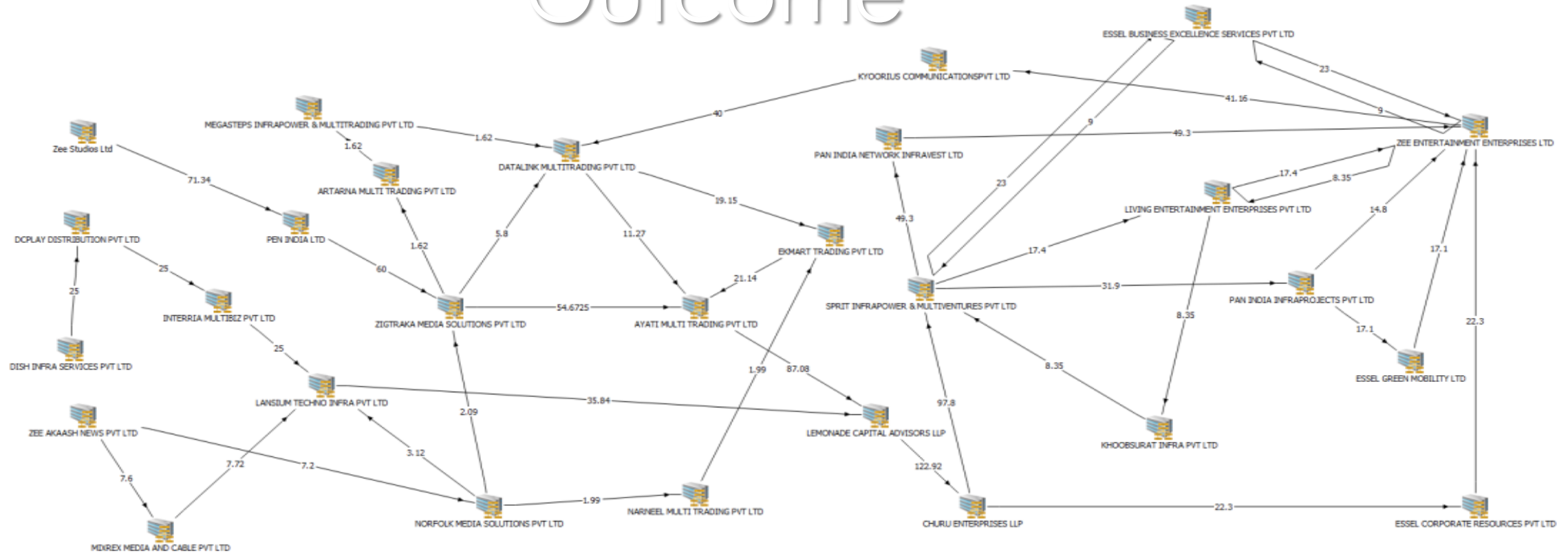
Circular movements of funds



Fund Trail – First In First Out of funds

Payments From	Payments To	Deposit Amount	Payments To	Withdrawal Amount
kaushal patel	DEEPAK DWIVEDI	36,00,000	sol	20,02,420.23
			shalini mi	9,99,999.00
			google ads	5,97,580.77
star tradi	DEEPAK DWIVEDI	4,00,000	google ads	4,00,000.00
interglobe aviation limited - Orig party	DEEPAK DWIVEDI	1,500	google ads	1,500.00
utilities_8301531821 - Orig party	DEEPAK DWIVEDI	4,00,000	anupam kum	10,000.00
			dipak dwiv	7,000.00
			manish mishra	13,258.18
			lic	21,400.00
			abhay dwiv	66,241.82
			Cash	5,000.00
			google ads	1,61,532.73
			LOAN	67,203.07
			Unknown	1
			samridhi	8,728.40
			na abhay dwiv - Orig party	13,300.00
			vps	18,271.60
			zomato	934.2
			ph q76836975@ybl - Orig party	30
			utilities_8301531821 - Orig party	98
			bipin kuma	2,741.82
			manish m	4,259.18

I2 Analyst Notebook - Outcome



E-mail Parsing Tool – Intella Pro

The screenshot displays the Intella Pro software interface, which is used for email parsing and analysis. The top navigation bar includes a menu (File, Sources, View, Export, Team, Help) and a status bar with icons for Welcome, Insight, Search, Keywords, Identities, and Errors. The main workspace is divided into several sections:

- Keyword Search:** A search bar with the placeholder text "Enter Keyword Search..." and buttons for "Options" and "Search".
- Facet Search:** A list of facets for filtering results, including Saved Searches, Features, Tags (highlighted), Identities, Custodians, Location, Email Address, Phone Number, Chat Account, Recipient Count, Date, Type, Author, Content Analysis, Email Thread, and Near-Duplicates.
- Results:** The central area for displaying search results, currently showing a large, faint, circular graphic.
- Visualization Tools:** A panel on the right side of the Results section containing tabs for Cluster Map, Histogram, Geolocation, and Social Graph. Below these tabs are buttons for Clusters, Sets, and a Filter button. A "Fit to size" button is also present.
- Searches:** A section on the right side of the Results panel with fields for "Required" and "Excludes" searches, and buttons for "Save", "Stop", and "Clear".



Thanks