

BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA

CORAM: S K MOHANTY, WHOLE TIME MEMBER

ORDER

Under Sections 11 and 11B of the Securities and Exchange Board of India Act, 1992

In the matter of M/s Tarini International Ltd.

In respect of:

Sl.	Names of the Noticees	PAN
1.	M/s. Tarini International Ltd.	AABCT7379R
2.	Mr. Vakamulla Chandra Shekhar, MD of Tarini International Ltd.	AOBPS6042M
3.	Mrs. Vakamulla Anu Naidu, Whole Time Director of Tarini International Ltd.	ADPPN6394L

**Background**

1. Tarini International Ltd. (hereinafter referred to as “Tarini” or “the company”) was originally incorporated as “Tarini International Private Limited” on January 20, 1999. After getting converted into a public limited company, its name was changed to “Tarini International Limited” on July 08, 2011. The business of the company was to provide consultancy services related to Hydro Power generation,

Transmission and Distribution and Infrastructure. The company came out with a IPO in the SME segment and issued a prospectus dated May 23, 2014 for public issue of 39,78,000 equity shares of face value of ₹ 10 each (face value) at a price of ₹ 41 per share (fixed price), aggregating to ₹ 16,30,98,000. The issued shares got listed on BSE on June 26, 2014.

### **SEBI's Investigation**

2. Acting on the basis of a complaint received, Securities and Exchange Board of India (hereinafter referred to as "SEBI") conducted investigation into the IPO of equity shares issued by Tarini International Ltd. and its subsequent activities relating to trading of shares on the stock exchange. The focus of investigation was inter-alia, to ascertain whether the IPO proceeds received by the Company were diverted/utilized for objects other than the objects mentioned in the Prospectus and/or whether any entity/ group was involved in price and volume manipulation in the scrip.
  
3. Investigations prima-facie revealed that out of the IPO proceeds of ₹ 16.31 crores raised by the Company, approximately ₹ 15.40 crores were not utilized by Tarini for the objects stated in the Prospectus and instead were diverted to various group companies and through them to some other entities/ persons. The IPO proceeds were also found to have been diverted for funding other entities to purchase Tarini's own shares in deviation from the disclosure made in the prospectus. Further, a loan of ₹ 5.50 crores taken by Tarini from one Hind Ispat Ltd. (hereinafter referred to as "Hind Ispat") after the date of Prospectus and before the date of allotment, was alleged to be not disclosed to the public by issuing a public notice in the newspapers as required under the relevant Regulations. The company was observed to have furnished wrong information in the statement explaining the

variations between projected utilization of funds as disclosed in its prospectus vis-à-vis the actual utilization of funds. Under the circumstances the Company is alleged to have misled and defrauded the investors at large by providing wrong and misleading information/disclosure in its Prospectus and other filings. As regards the complaint against price & volume manipulation in the scrip, there is no adverse finding in the Investigation report.

### **Show Cause Notice**

4. Based on the aforesaid findings in the investigation, a Show Cause Notice (hereinafter referred to as “SCN”) dated October 13, 2017 was issued to Tarini (Noticee no. 1), its Managing Director Mr. Vakamulla Chandra Shekhar (Noticee no. 2), and its Whole Time Director Mrs. Vakamulla Anu Naidu, (Noticee no. 3) (hereinafter collectively referred to as “Noticees”) asking them to explain as to why suitable directions under sections 11(1), 11(4) and 11B of SEBI Act, 1992 shall not be issued against them for the alleged violations of:

Regulation 57(1), 60(4) and 60 (7) (a) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations) Section 12A(a),(b),(c) of SEBI Act, 1992 (SEBI Act) read with Regulations 3(a),(b),(c),(d) and 4(1), 4(2)(f) and (k) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003.

### **Reply and Hearing**

5. The Noticees, vide a common reply dated January 11, 2018, have made, *inter-alia*, the following submissions, stating that:
  - a) the complainant triggering the investigation is fictitious and no cognizance ought to be taken of such complaint and SEBI has made the allegations in the

- SCN based on the said fake complaint,
- b) the Prospectus was issued for the purpose of projects of Tarini group of companies and not for only Tarini,
  - c) Tarini transferred amounts to group companies from IPO proceeds for executing projects. The IPO proceeds were transferred to the group companies by Tarini as loans on which Tarini has also charged interest,
  - d) Mr. Vakamulla Chandrashekhar is the first signatory and subscriber to MoA and AoA of Tarini group companies,
  - e) Tarini, its subsidiaries and associate group companies have same address,
  - f) Mr. Vakamulla Chandrasekhar is the MD and Director of all Tarini group companies along with Ms. Vakamulla Anu Naidu who is also a director in Tarini and group companies,
  - g) Tarini develops projects by itself and through its associate companies and as a major shareholder, Tarini was the actual beneficiary of all the said projects undertaken by its subsidiary and group companies,
  - h) It was believed from the beginning that the proceeds of IPO would be utilized for Tarini as well as its group/associate companies,
  - i) The loan that was availed from Hind Ispat prior to listing of shares was to meet some urgent requirement of working capital of Tarini group companies. The loan was taken on the basis of goodwill of Mr. Vakamulla Chandrashekar. No formal agreement was executed with Hind Ispat for availing the said loan and the loan was repaid from the IPO proceeds on June 27, 2014,
  - j) Tarini had appointed Guinness Corporate Advisors as the merchant banker to help them in the IPO and had verbally informed them regarding the said loan and it was the duty of the merchant banker to ensure that information provided by the issuer is disclosed to general public,
  - k) Tarini conducted press conferences, etc. along with the merchant banker during which information about the loan was disclosed, however, the same was not captured in printed news,

- l) Reliance has been placed on the statement of the Merchant Banker's representative that they were not informed of the loan by Tarini and no opportunity to cross examine him was granted to Tarini,
  - m) Reliance has been placed on the statement of the Merchant Bankers representative that they had not introduced the Noticees to Shallot group of companies without giving opportunity to Tarini for cross examination of the representative of Merchant Banker,
  - n) Payments were made to Shallot by Tarini Infrastructure Ltd., Tarini Sugar and Distilleries Ltd. and Venture Infrastructure for execution of the project of setting up of sugar plant being executed by the group.
6. The Noticees were provided with an opportunity of personal hearing on August 28, 2018. In response, the Noticees sought adjournment of hearing and also requested for cross examination of Shri Mohit Baid, representative of the merchant banker, M/s Guinness Corp. Advisors, whose emails have been referred to in the SCN. The Noticees were advised to appear for the hearing and make submissions on merits of their case and also explain as to how they stand prejudiced for want of cross examination of the merchant banker. The hearing was then scheduled on September 12, 2018, however the same was again adjourned at the request of the Noticee. Accordingly, accepting the request of the Noticees, hearing was rescheduled on September 26, 2018. However, the Noticees again requested for rescheduling the hearing between October 23 and 26, 2018. The hearing was again adjourned to October 23, 2018 as per the request of the Noticees, with an advice that no further adjournment shall be allowed if they don't appear on the said date. However, despite granting 4 opportunities for personal hearing, the Noticees chose not to appear for hearing. I find that principles of natural justice have been adequately complied with and the Noticees do not deserve any further opportunity of hearing. Hence I decide to proceed with the matter on the basis of records of the case.

## FINDINGS & CONSIDERATIONS

7. After carefully considering the allegations levelled in the SCN and the consolidated written explanations of the Noticees as summarized earlier, I find that the following issues emerge for consideration:

- i. Whether the Company utilized the IPO Proceeds of ₹15.40 crores (out of the total amount of ₹16.31 crores) as per the objects stated in the prospectus?
- ii. Whether any portion of the IPO proceeds was diverted to fund others to purchase its shares in violation of disclosure made in the prospectus?
- iii. Whether loan of ₹5.50 crores taken from Hind Ispat between the date of prospectus and date of allotment was disclosed by issuing public notice in newspapers?

8. Before, I proceed to examine the issues framed above, I note that Noticees have raised a preliminary objection stating that the initiation of investigation by SEBI, based on a fake complaint, is faulty. It is submitted that the complaint received by SEBI which instigated the process of investigation is a fake complaint inasmuch as the complainant has used a fake address and perhaps a fake identity. It is also submitted that that the said complaint is malafide and, therefore, ought to have been disregarded completely. I note that Noticees have also filed a Writ Petition No 9058/2004 before the Hon'ble High Court of Delhi, with a prayer to direct SEBI not to take cognizance of the complaint forwarded by the Ministry of Finance, Department of Economic Affairs and not to proceed with any investigation on the basis of the said complaint. I note that the said petition was disposed of vide order dated 19.12.2014 by the Hon'ble High Court of Delhi with following observation; *"I am unable to accept the said contention as the SEBI being an independent authority is entrusted with the duty to safeguard the investors and is bound to*

*enquire into complaints? even anonymous ones ? Where, in its wisdom, it is of the opinion that investigations are necessary or warranted. Needless to mention that the SEBI shall proceed in accordance with law uninfluenced by any direction or suggestion of any other party”.*

9. I note that the issues raised by the Noticees before me have been duly dealt with by the Hon'ble High Court of Delhi, while disposing the above referred Writ Petition, hence, they do not warrant consideration anymore. However, the Noticees have still raised the issue as a preliminary objection. In this regard I rely on the finding of Hon'ble SAT in the matter of M/s Shreeyash Industries Limited vs. SEBI ( decided on 06/03/2018 in Appeal No 368/2017), wherein the Hon'ble SAT has held that;

*“5. We find no merit in the arguments advanced by the Learned Counsel for appellants. Submission that investigation of SEBI was initiated on a complaint received from one Mr. Anil Kumar Sharma, copy of which was not given to the appellants was prejudicial to appellants has no merit since SEBI did a full investigation and the impugned order has been passed after following the due process like issue of show cause notice to the appellants and providing opportunity for reply and personal hearing etc.”*

10. I note that the allegations made in the SCN are not merely based on the said complaint received by SEBI. I further note that based on the complaint forwarded by the finance ministry, SEBI has undertaken an investigation and based on the finding of the investigation, a SCN has been issued. However, instead of responding to the SCN and defending their case on merit on the allegations levelled in the SCN, the Noticees have preferred to assail the allegations made in the SCN on the sole ground that findings of investigation, initiated on an anonymous complaint, are bad and deserve to be set aside. I find that Noticees

have been given ample opportunity to respond, reply and rebut the allegations made based on the facts unearthed during the course of investigation. In view of the above, I find no merit in the contention of the Noticee with regard to the genesis of the complaint. I now proceed to examine the issues identified above, that emerge out of the facts of the case.

**Issue no. 1: Whether the Company utilized the IPO Proceeds of ₹15.40 crores as per the objects stated in the prospectus?**

11.I note that as per the Prospectus, the main objects of the IPO set out by Tarini were to finance the business expansion plans and to achieve the benefits of listing on the SME platform of BSE Ltd. The allocation of IPO proceeds proposed to be utilized under different heads/ objectives as stated in the company's prospectus is given below:

Sl.	Particulars	Amount(₹ in Lakhs)
i.	To finance long term incremental working capital requirements	1,000.00
ii.	Renovation & Interior of Registered Office	160.00
iii.	Brand Building	150.00
iv.	General Corporate purposes	250.00
v.	Issue expenses	70.98
	<b>Total</b>	<b>1630.98</b>

12.I note that Tarini has made the following disclosure in its Annual Report for the F.Y. 2014-15 regarding actual utilization of IPO proceeds against various heads:



Sl.	Particulars	Amount Proposed to be utilized as per the Prospectus (₹ in Lacs)	Actual Utilization of amount as per Annual Report (₹ in Lacs)
i.	To finance long term incremental working capital requirements	1,000.00	888.38
ii.	Renovation & Interior of Registered Office	160.00	159.28
iii.	Brand Building	150.00	72.95
iv.	General Corporate purposes	250.00	430.00
v.	Issue expenses	70.98	80.37
	<b>Total</b>	<b>1630.98</b>	<b>1630.98</b>

13. As may be seen from above, the actual utilization under different heads as presented in the Annual Report of the company are not in conformity with the head-wise outlays projected in the Prospectus. The Annual Report shows overspending towards some objects like general corporate purpose while the company has spent less than projected outlay for working capital requirements. Further, in contrast to the aforesaid disclosures in the Annual Report, I find that during the course of investigation, several other irregularities have been noted with respect to actual utilization of IPO proceeds. It was also observed during investigation that Tarini had made a fixed deposit of ₹ 1,50,00,000 with Karur Vysya Bank and also had repaid a loan of ₹ 5,50,00,000 taken from Hind Ispat from the proceeds of IPO. Under the circumstances, in course of Investigation, Tarini was advised to provide the item-wise details of utilization of IPO proceeds. Details regarding the same as provided by Tarini, vide email dated April 04, 2016, are as under:

Sl.	Objects of the Issue	Source of the funds	Amount (₹)
A.	Working Capital	Maturity amount of FD made out of IPO proceeds	34,77,665
		IPO Proceeds	7,59,85,863
		<i>Sub Total</i>	<i>7,94,63,528</i>
		Loan From Hind Ispat Ltd. which was repaid out of IPO proceeds	5,16,01,450
Sub total			13,10,64,978
B.	Renovation Interior	IPO Proceeds	1,20,00,000
C.	Brand Building	Maturity amount of FD made out of IPO proceeds	1,87,926
		IPO Proceeds	7,70,790
Sub total			9,58,716
D.	General Corporate Expenses	Maturity amount of FD made out of IPO proceeds	94,26,000
E.	Issue Expenses	Maturity amount of FD made out of IPO proceeds	16,30,980
		IPO Proceeds	47,24,844
Sub total			63,55,824
		<b>Total</b>	<b>15,98,05,518</b>

14. The aforesaid details furnished by Tarini are again found to be not in conformity with the disclosure of utilization of IPO proceeds made in its Annual Report for FY 2014-15. However, since the aforesaid information provided by Tarini relating to utilisation of IPO proceeds under different heads is the latest and updated information submitted in April 2016, I proceed to examine as to whether IPO proceeds have been actually utilised by Tarini in compliance with the five objects as spelt out in the IPO Prospectus based on the aforesaid details furnished by Tarini during the Investigation. I would now examine object wise utilization of IPO proceeds in the following paragraphs.

**(A) Object 1-To finance long term incremental working capital requirements:-**

15. I note that in terms of the objects stated in the Prospectus, Tarini had disclosed that ₹10 crores would be utilised towards the working capital requirements. As per the information provided by Tarini vide email dated April 04, 2016, it has spent a total sum of ₹13.10 crores as working capital as indicated in the table at para-13 above. Out of the same, ₹7.94 crores was financed from IPO proceeds (including redemption of FD made out of IPO proceeds) and ₹5.16 was utilized from the loan of ₹5.5 crores availed from Hind Ispat just prior to the IPO, which was later on repaid out of IPO proceeds. I take up the expenditure of ₹7.94 crore towards working capital in the following paragraphs before dealing with the utilization in Hind Ispat loan.

16. A further break-up of utilization of IPO proceeds to meet the working capital requirements of ₹7.94 crores as furnished by Tarini showing various amounts paid to different companies/ entities is presented as under:

Sl.	Date	Name of the entity/ payee	Amount in ₹	Reason for Payment
1	26/06/2014	Tarini Infrastructur e Ltd.	1,00,00,000	Preparation of detailed project report and detailed design for 2 Nos. hydro power projects with total capacity of 100 MW in Kingdom of Lesotho awarded to M/s Tarini Hydro Power Lesotho Ltd. (a 100% subsidiary of M/s Tarini Infrastructure Ltd. (Total ₹3.0 Crore)
	27/06/2014		1,90,00,000	
	02/07/2014		1,50,000	
	07/07/2014		50,000	
	08/07/2014		8,00,000	
Sub Total			3,00,00,000	

Sl.	Date	Name of the entity/ payee	Amount in ₹	Reason for Payment
2	26/06/2014	Tarini Sugars & Distilleries Ltd.	1,00,00,000	Advances for the purpose of procurement of plant & machinery required for setting up of new sugar factory owned by M/s Tarini Sugar & Distilleries Ltd. (Total ₹1.25 Crore)
	01/07/2014		20,00,000	
	07/07/2014		5,10,000	
Sub Total			1,25,10,000	
3	01/07/2014	B. Soilmec India Private Ltd.	30,00,000	For carrying out drill holes for the purpose of core sampling, soil testing, rock strata investigation and testing at Durgadalli small hydro power project owned by B. Soilmec India and Civil Work including Plastering , flooring & tiles, electrical work, sanitary, painting, finishing and POP Etc. (Total ₹30.00 Lakh)
4	26/06/2014	Venture Infrastructure Ltd	1,00,00,000	Sub contract for carrying out detailed drawings & designs for power evacuation arrangement and erection of electrical equipment required at 5 MW Kanayatana small hydro power project owned by M/s Tarini International Ltd. ( Total ₹1.00 Crore)
5	30/06/2014	Tarini Wilderness Innovation Pvt. Ltd.	50,00,000	Construction of boundary wall along the periphery of 6 Acre land. Total ₹65.00 Lakh)
	11/07/2014		10,00,000	
	30/07/2014		5,00,000	
Sub Total			65,00,000	

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Sl.	Date	Name of the entity/ payee	Amount in ₹	Reason for Payment
6	01/07/2014	Bantia Fintrade Pvt. Ltd	50,00,000	Assisting for purchase of Land(13.61 Hectare) from Farmers
7	27/06/2014	Chandaluri Hari Krishna	9,90,000	Advance against salary
8	01/07/2014	Chandaluri Hari Krishna	5,00,000	Salary
9	07/07/2014	ICICI Bank Ltd	45,38,174	Interest and Installment Charges
10	July-Aug 2014	Salary to staff	34,77,665	Salary for the month of July to August 2014
11	July-Aug 2014	Administrati on Charges	27,05,450	Electricity, Telephone and Daily running cost (May & June, 2014)
12	07/07/2014	TDS	2,42,239	Payment to TDS
<b>Total</b>			<b>7,94,63,528</b>	

17. From the above details of payments, I find that an aggregate amount of ₹6.20 crores have been transferred to different entities listed at sl. no.1 to 5. These entities are connected to each other and to Tarini by virtue of having common directors. They are also disclosed in the IPO prospectus of Tarini as part of promoters' group of Tarini. I note that Noticees have not disputed the aforesaid transactions already brought to their attention in the SCN.

18. With regard to the loan of ₹5.5 crores taken from Hind Ispat, shown under the object of working-capital, Tarini had submitted that it had taken the loan just before the IPO from Hind Ispat on June 16 and 17, 2014, which was subsequently repaid from the IPO proceeds on June 26 and June 27, 2014. Tarini has submitted that since the said loan was taken by Tarini to meet urgent working capital requirement

prior to the IPO, the same was paid back out of the IPO proceeds under the head of Working capital. The details of deployment of the above stated loans as furnished by Tarini are as below:

Sl.	Date	Particulars	Amount in (₹)	Remark
1	17-06-2014	Tarini Infrastructure Ltd	1,00,00,000	Working Capital for Lesotho Project
2	16-06-2014	Tarini Sugars & Distilleries Ltd	2,00,00,000	Advances for purchase of Plant and Machinery
3	17-06-2014	B.Soilmec India Pvt Ltd	30,00,000	DPR Survey Investigation and Land acquisition
4	17-06-2014	Venture Infrastructure Ltd	75,00,000	Work order for Kanayatna Hydro Power Project
5	-	Banthia Fintrade Pvt Ltd	50,00,000	Assisting for purchase of Land(13.61 Hectare) from Farmers
6	May & June 2014	Salary for the month of May to July'14	32,00,000	Salary to staff
7	May & June 2014	Administration charges	29,01,450	Electricity Telephone and daily running cost
	<b>Total</b>		<b>5,16,01,450</b>	

19. On examination of the nature of payments made to different entities as listed out above, it is observed that as against the claim of the Noticees that the loan was taken to meet urgent working capital requirement, the amount was rather transferred to different promoter group entities (sl. No. 1 to 4). It is also observed that funds were transferred to the group entities in the form of loans and advances even prior to the execution of the necessary loan agreements with them. The Noticees have not provided any reasons justifying the urgency that warranted borrowing of such an amount from Hind Ispat after the registration of prospectus

for IPO and just prior to date of allotment of shares, as the details of deployment of the loan do not indicate any sense of urgency in the payments made to any of the group entities.

20.A consolidated summary of the various amounts transferred to five different promoter group entities, under the head of working capital requirements directly from IPO proceeds (table at para-16) as well as from the loan amount received from Hind Ispat (table at para-18), are summarized as under:

Sl.	Name of the promoter group entity	Total amount paid and shown as working capital (₹)
1	Tarini Infrastructure Ltd.	4,00,00,000
2	Tarini Sugars & Distilleries Ltd.	2,00,00,000
3	B. Soilmec India Private Ltd.	60,00,000
4	Venture Infrastructure Ltd	1,75,00,000
5	Tarini Wilderness Innovation Pvt. Ltd.	1,25,10,000
Total		9,60,10,000

21. It is seen that out of a total sum of ₹ 13.10 crores, which was claimed by Tarini to have been spent towards meeting working capital needs, as per its email dated April 04, 2016, ₹9.60 crores was indeed transferred to above mentioned 5 group entities. Tarini has submitted that the above amounts were advanced as loans in terms of the loan agreements dated July 30, 2014 signed with each of the above group entities. On a perusal of the loan agreements signed by Tarini with each of the above mentioned group companies, I have the following observations:

Name of the entity	Supporting documents & Nature of Loan
Tarini Infrastructure Ltd.	Loan agreement dated July 30, 2014 entered between Tarini and the entity to fund ₹ 4,00,00,000 towards the

	working capital requirements of the entity w.r.t its proposed project at Lesotho, South Africa.
Tarini Sugars & Distilleries Ltd.	Two agreements for ₹3,70,00,000 & ₹60,00,000/- both dated July 30, 2014 entered between Tarini and the entity to meet the expenses for various purposes related to establishment of Sugar Factory at Parbhani, Maharashtra by Tarini Sugars & Distilleries Ltd. The said fund given to the entity was shown as loan.
B.Soilmec India Private Ltd.	Loan agreements for ₹1,65,00,000 dated July 30, 2014 entered between Tarini and the entity to fund some projects of the entity and also to acquire the land.
Venture Infrastructure Ltd.	Loan agreement for ₹1,75,00,000 dated July 30, 2014 entered between Tarini and the entity to fund the Hydro power project of the entity at Kanayatna, Karnataka.
Tarini Wilderness Innovation Pvt. Ltd.	Loan agreement for ₹65,00,000 dated July 30, 2014 entered between Tarini and the entity to fund construction of a boundary wall for the farm house of the entity situated at Village Dera Mandi, New Delhi.

22.I find that all the aforesaid agreements with group companies to whom IPO proceeds have been transferred as loans are signed on July 30, 2014. All the agreements executed on a plain un-stamped and un-notarized piece of paper through which an aggregate amount ₹9.60 crores have been transferred to the group companies.

23.The contents of all the agreements are similar and as stated above all the agreements have been executed on the same day. The salient features of such loan agreements can very well be observed from the following extracts taken from one such sample agreement (for example, the agreement of M/s. Tarini International Ltd. with M/s. B. Soilmec India Private Ltd.(BSIPL)):

*“BSIPL has some projects in pipeline and the said Company is to prepare*



*Detailed Project report and survey investigation and also need to acquire land for the same. The said Company is in need of funds for various purposes related to this project. This was discussed between both the Parties.*

*In view of the discussion, TIL has decided to fund the said requirements.*

*Subsequently, BSIPL has made a payment of ₹ 1,35,00,000/- (Rupees One Crore Thirty Five Lakhs Only) in various tranches.*

*BSIPL hereby acknowledges the receipt of the same.*

*NOW, both the Parties have decided to enter into a formal arrangement for the said loan taken from the TIL by BSIPL.*

*This agreement witnesseth as under:-*

- *BSIPL will repay the loan in one or more tranches within a period of three years from the date of this Agreement.*
- *In case of inability by BSIPL to repay the said loan a fresh agreement will be executed between both the parties for rescheduling of the loan.*
- *BSIPL will pay an interest @ PLR + 2% to TIL on the monthly balance outstanding to TIL.*
- *The said loan is an unsecured loan, keeping in view the fact both the companies are under same management.*
- *Any notice to be given by either parties shall be served and delivered at the Registered Office of the said party and that service shall be deemed to be made upon receipt by the party by acknowledging the same.*
- *In case of any dispute between the parties, the same shall be settled by referring to an arbitrator to be appointed by both the parties by mutual consent. In case no consent could be arrived on appointment of an arbitrator, each parties will appoint one arbitrator each and the arbitrators shall appoint a third person as presiding arbitrator, and the decision of the presiding arbitrator shall be final in all the matters.”*

24. As I stated earlier, the other agreements are also signed on the same date i.e. July 30, 2014 and the language of all the agreements executed by Tarini with other group entities are similar to the above cited agreement.
25. The Noticees have taken this defence that Tarini, its subsidiaries, associates and all other promoters related entities are to be understood as one entity and the money raised by way of an IPO by Tarini was in effect meant for the working capital needs of itself as well as of its group/ related companies. Noticees, in their reply, have categorically asserted that IPO was floated with an intention to use the proceeds for the working and expansion of projects undertaken by Tarini as well as its subsidiaries and associate companies. It has been contended that though the associates and subsidiaries are considered as separate legal entities under the law, being under the same parent company's management, they should be held as one entity and hence can utilise the funds/ resources that belong to the parent company.
26. Another observation made from the above transactions is that all the funds that were transferred to various promoter group entities were made prior to the simultaneous execution of the loan agreements with the group companies. The clauses of the respective agreements treat the transfers of fund as loans to the respective companies to financially assist them in their various projects. In these agreements, it is also acknowledged that Tarini has already paid the loan amounts to the promoter group entity and the group entity acknowledge the receipt of the loan, which means, the funds were transferred before signing the agreements with the group entities. Prima facie it appears that the agreements have been executed ex post facto after the IPO proceeds were actually transferred to the group entities only with a motive to regularise the fund transfers in the respective entities' books of accounts as loans and advances. *Further, the terms of the agreement provides that the loan would be repayable in one or more tranches within a period of three*

*years from the date of this Agreement, at the same time another clause enables for execution of fresh agreement rescheduling of the tenure of repayment, in the event of inability to repay the said loan. Thus, I find that the Noticees has not submitted any proof of repayment by the entities to which loan facility has been extended and in that event the loan payment remain an open ended.*

27. I note from Tarini' s prospectus dated May 23, 2014 at page 44 that under the section 'Details' of the objects of the issue, it is stated as under:

*"We are presently engaged in the business of engineering with focus in to power sector. Going forward, we plan to increase our volume of operations. We have been retained for preparation of two Hydro Power Projects in Lesotho, Africa for an estimated value of ₹ 125 Crs. Therefore, our anticipated growth would push up the increase in sales and thereby need of additional long term working capital on account of providing credit period sought by our clients and for payment to manpower's and procurement of materials."*

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*The working capital requirement of the company as per the latest audited financial statements i.e. 31<sup>st</sup> December, 2013 is ₹. 169.16 Lacs. The working capital of Fiscal 2015 has been assessed at ₹. 1218.53 Lacs. This will entail the incremental working capital requirement of ₹. 1049.37 Lacs in fiscal 2015. The funding pattern of the requirement for the working capital is as below:*

*(A) Issue Proceeds: We intend to utilize ₹. 1000.00 Lacs towards the total working capital requirements for Fiscal 2015.*

*(B) Internal Accruals: We intend to utilize ₹. 49.27 Lacs towards the total working capital requirements for Fiscal 2015."*

28. From the perusal of the Prospectus of the IPO issued by Tarini, there is a clear

indication that the funds were raised for meeting the working capital requirement of the company i.e. 'Tarini' only. The aforesaid declaration made in the Prospectus does not give any impression that the company is making the said declaration about its group companies and not about its own business. The Prospectus at no place proposes to utilize the IPO proceeds for meeting the working capital requirement of other group entity other than Tarini. No documents to this effect has been submitted by the Noticee Company to justify the transfer of IPO proceeds made to group companies as loans which in fact was meant for meeting the working capital requirements of Tarini. Instead, the funds were diverted to group entities for meeting their financial requirement.

29. Further, I find a contradiction in the submissions made by the Noticees. On the one hand Noticees claimed that at the time of going for IPO they have believed and understood that Tarini along with all other promoter related entities are 'One' entity, while on the other hand, by executing loan agreement/s with group entities, the Noticees clearly admit that the group companies are in fact different/separate entities who have been dealt at arm's length. I find that the agreements as submitted by the Noticees contain a narration under a clause stating that *"This was discussed between both the parties"*. On the one hand the Noticees state that IPO proceeds have been transferred to group companies under the belief that they are meant for utilization by the entire Tarini group of companies, whereas from the details of utilization and from the loan agreements, it is evident that the IPO proceeds were utilized by Tarini for advancing loans to its group companies at an interest of PLR+2%.

30. As observed earlier, the agreements have been executed on a plain piece of paper which are not even notarized. All the agreements with the related entities have been signed by the managing director and whole time director of Tarini. I see no reason for execution of any agreement for justifying the transfer of IPO

proceeds to promoter related entities, if the promoters/Noticees had indeed a bonafide belief and understanding that proceeds of IPO would be legally available to be utilized for the group companies of Tarini. Neither, the Prospectus makes any disclosure of any such understanding or belief purportedly made by the promoters nor the Noticees were ever prohibited from disclosing any such fact/ understanding in the Prospectus stating that the IPO proceeds would be utilized for the entire Tarini group of Companies. Thus the agreements submitted on behalf of the Noticees to justify the transfer of IPO proceeds to group entities under the head of working capital appear to be an afterthought exercise to provide a rationale for the diversion of IPO proceeds to group entities that has taken place as soon as the IPO proceeds were received. In view of the above, it is clear that Tarini has utilized the IPO proceeds for financing the activities of its group companies by way of advancing loans to them. Therefore, this act of Tarini can be stated to be in the nature of financing activities and not utilization of IPO proceeds for meeting its working capital requirements. This act of Tarini of providing loans to its group companies may not be in the business interest of Tarini and its shareholders. The same is also not in compliance with the provisions of law as such fund transfers do not form part of the stated objects of the IPO as disclosed by Tarini in the prospectus. Noticees appear to have misled the investors by concealing material facts and not disclosing the actual intended utilization of IPO proceeds for assisting the group companies and not for meeting it's own project expenditure. Further what is claimed as utilization for working capital requirements of associate and related companies have been actually shown under the head 'Loan and Advances" by Tarini. In this connection, a reference is also made to a significant finding recorded by the Auditor, which has been disclosed in the Annual report of Tarini as under:

*"advances granted amounting to ₹.1326.72 Lakhs to group companies in which directors are interested; the company is yet to comply within the provisions of*

*section 186 of the Companies Act, 2013".*

It shows that the loans advanced by Tarini to group companies are in violation of provisions of Companies Act, 2013

31. Apart from the funds aggregating to ₹ .9.60 crores directly transferred to the group entities as loans under the head “working capital”, as discussed in the preceding paragraphs, some more payments of IPO proceeds under the head of working capital have been made to following parties as depicted in the tables at para-16 and 18 earlier. In this regard payments made towards the first three heads (sl. No. 1 to 3 of the table) are discussed in the following paragraphs:

<b>Sl.</b>	<b>Name of the entity/ category</b>	<b>Amount transferred in ₹</b>
1	Bantia Fintrade Pvt. Ltd	1,00,00,000
2	Salary to staff	66,77,665
3	Administration Charges	56,06,900
4	ICICI Bank Ltd	45,38,174
5	Chandaluri Hari Krishna	14,90,000
6	TDS	2,42,239
	<b>Total</b>	<b>2,85,54,978</b>

32. In respect of transfer of fund to Bantia Fintrade Pvt. Ltd (hereinafter referred to as “Bantia”), it is stated that ₹50 lakh was paid as a part-payment to act an agent/facilitator for a project of Tarini Sugar and Distilleries Limited. In this regard, I note that Tarini has claimed to have paid the said amount to Bantia for assisting in purchase of 13.61 hectares of Land. No further details have been submitted by the Noticees except for stating that the file *containing IPO documents and agreement related to Bantia Fintrade Pvt Ltd for assisting purchase of land, along with other documents related to IPO (invoices related to Pre-IPO expenditure)* was seized by CBI during the search conducted in our premises on September

26, 2015. Thus no further details including basic details pertaining to the property viz; location, seller etc. have been made available in connection with the payment to Bantia. Tarini, however, has admitted that the amount was used for the purpose of purchase of land on behalf of a group company as mentioned above. The Noticees have admitted having made a payment of ₹50.00 Lakh to Bantia from the IPO proceeds, however have denied having made payment of another sum of ₹.50 lacs from the loan taken from Hind Ispat. The denial on the part of Tarini is untenable as the Noticee itself has furnished the break up of the utilization of the loan taken from Hind Ispat, presented at para-18 of this order. After having furnished the head wise details of utilization of the loan, which includes payment of ₹.50 lacs to Banthia, can not deny that payment, without any supporting evidence to the contrary. Therefore, it remains admitted by the Noticees that Banthia was paid an amount of ₹.100 lacs out of the IPO proceeds. It is also admitted that said payment was made for the project of its group company and not for any project of Tarini. Such an expenditure is also in the nature of long term capital expenditure and not a working capital expenditure as per the stated objectives in the prospectus, hence, should not have been shown as working capital item of expenditure. Notwithstanding the explanation offered by Tarini, it is clear that the payment to Banthia is a diversion of fund from the IPO proceeds of Tarini to favour its group entity.

33. With respect to the payment of salary, I note that the Noticees have claimed that Tarini has paid a total salary of ₹66,77,665 for the months from May to August 2014. However, I find that the Noticees have not submitted supporting documents to prove that such an amount of salary was indeed paid to the staff of Tarini. I rather observe that in the Annual report of Tarini for the year 2014-15, the total salary and wages for the entire year was shown at ₹56,08,221, whereas from the list submitted by Tarini, I find that monthly salary expenditure has been shown to

be ₹17 lakh ( approx.). Thus, when compared with the salary figures mentioned in Annual Report of Tarini, for an entire year, the salary claimed to have been paid for only 4 months becomes more than the entire year's salary made by Company. Interestingly from the bank statement of Tarini maintained with Karur Vysya Bank, the payment made towards salary for the month of June 2014 is found to be only ₹5.98 Lakh as against monthly salary pay out of ₹17 lakhs claimed by the Noticees in their submissions. Thus, I find that no credible evidence has been submitted by Noticees to substantiate their claim of payment of ₹66,77,665 towards the salary of employees out of the IPO proceeds for the months of May to August, 2014. Under the circumstances such an expenditure remains unsubstantiated by the Noticees.

34. Further, a sum of ₹56,06,900 has been shown to have been spent on administrative expenses out of the IPO proceeds. In support of the same, the noticees have provided copies of Telephone/ internet bills. From the perusal of the item wise list submitted by Noticees, I note that bills pertaining Electricity, Telephone, Internet etc., have been raised in various names viz; Tarini International Pvt Ltd, Venture Energy & Technologies Ltd, Tarini Infrastructure Ltd, Dev Kumar Pathan, V. Chandrashekhar, Naresh Kumar Saini, Mr. Bobby etc. This shows that the proceeds of IPO have been utilised to pay the bills of entities other than Tarini. I also note that as per Annual report of Tarini, the total telephone and internet expense for the year 2014-15 was only ₹2,97,249. In view of the above, I hold that major portion of the above stated administrative expenses incurred out of the proceeds of the IPO have in fact been utilised for unexplained purposes as the details of such expenses as submitted by Noticees raise serious doubts on their credibility and authenticity.

35. To sum up, out of the ₹.2.85 crores claimed by Tarini having spent towards its



working capital requirements, major portion of this expenditure viz. payments to Banthia Fintrade Pvt. Ltd., towards salary to staff and administrative charges were found to have been incurred either for and on behalf of other group entity or grossly overstated. Apparently the IPO proceeds have been misappropriated towards inexplicable purposes and not for any working capital requirements of Tarini.

36. There is also an allegation that upon receipt of loan from Hind Ispat just prior to IPO, Tarini transferred an amount of ₹73,50,000 to the bank accounts of Shri Vakamulla Chandra Shekhar, Managing director of Tarini. However, it has been submitted by Noticees that no money has been paid to Shri Vakamulla Chandra Shekhar out of loan amount taken from Hind Ispat. Before me, it is submitted that the amount transferred to Shri Vakamulla Chandra Shekhar was on account of fund infused in the company by Shri Vakamulla Chandra Shekhar in the month of May 2014. However, the said amount has not been transferred out of the loan received from Hind Ispat. The Noticees, have however, not submitted any supporting document to show that Tarini had sufficient credit balance in its accounts to remit the amount to the account of Shri Vakamulla Chandra Shekhar. Tarini has also not submitted any document to substantiate the so called infusion of fund made by Shri Vakamulla Chandra Shekhar, as claimed by them, which justified transfer of funds to his accounts. I also note that the said infusion by Shri Vakamulla Chandra Shekhar as claimed by the Noticees was not disclosed to the shareholders/ investors, hence the explanation offered by the Noticees with respect to the payment to Shri Chandra Shekhar towards infusion of money is untenable and rejected. At the same time, I also find that investigation has not brought out any concrete evidence to suggest that the amount transferred to the account of Mr. Vakamulla Chandra Sekhar was out of the loan availed from Hind Ispat. The break-up of utilization of loan obtained from Hind Ispat as presented

under paragraph-18 also does not talk about the transfer of funds of ₹.73.50 lakhs to Mr. Vakamulla Chandra Sekhar as has been alleged. The item wise break up at Para-18 with respect to utilization of Hind Ispat loans as submitted by Tarini has not been contradicted in the Investigation report either. Under these circumstances it cannot be held that Tarini has mis-utilised the loan availed from Hind Ispat by transferring money to the account of Mr. Vakamulla Chandra Sekhar out of the said loan. Nevertheless, the fact remains that nature of the funds transferred to the accounts of Mr. Vakamulla Chandra Sekhar just prior to the IPO, irrespective of its source, has neither been disclosed to the shareholders by the promoters nor been explained by the company with any supporting evidence.

**(B) Renovation and Interior of Registered Office**

37. This is the second object of the IPO. As stated by Tarini in the Prospectus, it required an amount of ₹ 160.00 lakh towards carrying out renovation and interior work in the registered office. In this regard the annual report shows utilization of ₹.159.28 lakhs while the details submitted by Tarini vide email of April, 2016 as presented at para -13 shows that ₹. 120 lakhs have been spent under this head. As per the explanation offered, Tarini had entered into an agreement with M/s Mapple Destinations and Dream Build Pvt. Ltd. (hereinafter referred to as “Mapple”), for carrying out the renovation work prior to the IPO. The said contract was executed for ₹ 160.00 Lakh. It is alleged in the SCN that knowing well that Mapple or the persons behind Mapple had no previous experience in execution of renovation and interior work, still Tarini decided to award the work to them as they were known to the Noticees. To this allegation, it is submitted by Tarini that the contract with Mapple was terminated after execution of work worth ₹ 30.00 Lakh (approx.) by them and thereafter, the rest of the work related to renovation and interior work was executed by its group company, M/s B. Soilmec Pvt. Ltd. ( hereinafter referred to as “Soilmec”) by engaging petty contractors. Tarini has

submitted a copy of the agreement dated July 30, 2014 executed with Soilmec supposedly for the said purpose of executing the rest of the renovation work.

38. After carefully considering the reply of the Noticees and material available on record, I find that Tarini has not provided any cogent reason for the termination of the agreement with Mapple. Further, a copy of the agreement claimed to have been executed with Mapple has not been furnished to support if it had at all entered into any agreement with Maple. As regards the transfer of ₹120.00 lakh to Soilmec to complete the renovation and interior work carried out in the registered office of the Company, from a perusal of copy of agreement dated July 30, 2014 as entered into between Tarini and Soilmec, I note that the said agreement contain clauses pertaining to a loan given by Tarini to Soilmec. The said agreement does not contain any statement with respect to renovation work or any work ancillary to renovation. As per the clauses of the agreements, the funds were transferred as loan to Soilmec for acquisition of land, preparation of project report, survey investigation etc. Thus, it becomes clear that the agreement was not related to any renovation and interior work of registered office of the company and the amount was not actually spent by Tarini for renovation and interior work of registered office as per the objects stipulated in the Prospectus. The amount appears to have been actually diverted to one of the promoter related entities for some other unrelated work but falsely being claimed under the head of renovation and interior work. Hence, the submission of the Noticees on this item of expenditure is found to be grossly erroneous, unsubstantiated and not acceptable. Thus it becomes evident that the entire expenditure claimed under renovation of registered office has actually been appropriated for some other unexplained purpose, thereby blatantly deviating from the stated objects of IPO.

### **(C) Brand Building**

39. The third objective in the Prospectus states that Tarini *intends to deploy ₹ 150.00 Lacs out of net issue proceeds for brand building. In this regard, I note that as per the details of utilization provided by Tarini, only ₹ 9,58,716 was actually utilized for brand building as against ₹ 150 lakh proposed to be utilized for brand building as disclosed in the prospectus. However, on this expenditure no adverse finding has been alleged in the SCN, hence the same does not call for further discussion in this order.*

### **(D) General Corporate purposes:**

40. I note that Tarini in its Prospectus made disclosure that it required funds to the tune of ₹250.00 Lakh for General Corporate purposes. The company in its prospectus has stated about its fourth object of IPO as under: *"Our Company in accordance with the policies set up by our Board, will have flexibility in applying the remaining Net proceeds of this Issue aggregating 250.00 Lacs, for general corporate purpose towards, financing normal capital expenditure, strategic initiatives, expanding into new geographies, pre-operative expenses, funding routine working capital and strengthening our marketing capabilities."*

41. As against the projected outlay of IPO proceeds towards the above object, Tarini has provided the details of actual utilization of IPO proceeds under this head as under:

<b>Sl.</b>	<b>Supplier Name</b>	<b>Amount paid (₹)</b>	<b>Payment made for</b>
1	Arvee Sales	2,37,000	Purchase of Air Conditioners
2	Tarini Sugars & Distilleries Ltd	38,50,000	Security Deposit with Kisan Nagari Sahakari Bank relating to setting up of Sugar Factory

3	Tarini Sugars & Distilleries Ltd	40,78,000	Registry amount
4	Tarini Sugars & Distilleries Ltd	12,61,000	Purchase of Stamp paper and Registry
	Total	94,26,000	

42. In this regard, I find that expenses incurred by payment of ₹2,37,000/- to M/s Arvee Sales was found in investigation to be for justified reason and no allegation has been made with respect to the same in the SCN. However, for the rest of the expenses, involving payments indicated at sl. nos. 2 to 4, I find that all these payments are related to its group company viz. Tarini Sugars and Distilleries Limited and have been incurred in connection with purchase of land and setting up of Sugar Factory at Parbhani, Maharashtra and not incurred for any corporate purpose of Tarini. Under the circumstances, I find that Tarini has actually utilized only ₹2,37,000 towards general corporate purposes out of the total expenditure of ₹94.26 lakhs claimed to be utilized for general corporate purposes, thereby diverting ₹91,89,000 towards meeting the expenditure in connection with proposed sugar factory of its group company, which certainly cannot be stated to have been incurred towards the stated objects for which the IPO proceeds were received by Tarini.

43. In this regard, I also note that the statutory auditors in their audit report have qualified the Consolidated Financial Statements for the F.Y. 2014-15 by making the following observation:

*"We draw attention to the note 30 of the financial statements whereby the holding company has raised the money by way of Public Issue, during the year. Further, there has been variation in the utilization of money, between the objects of public issue contained in the prospectus and actual utilization, which was need to be*

*authorized from the members. In view of this, we are unable to comment upon the appropriateness of variation in utilization of money by holding company."*

44. Further, the Secretarial Auditor in their secretarial audit report for the financial year ended 31st March 2015 has inter-alia, made the following observation:

*"We draw attention to the note 27 of the financial statements whereby the company has raised the funds by way of Public Issue, during the year, and the variation is observed in utilization of funds as against the terms of Public issue contained in Prospectus without complying with the provisions of Section 27 of the Act."*

Thus, the deviations made by the company from the stated objects of the IPO, while utilizing the IPO proceeds have been red flagged by both the auditors.

#### **(E) Issue Expenses (₹.47,24,844)**

45. This is the last broad object on which IPO proceeds were meant to be utilized to the extent of ₹.70.98 lacs against which ₹.47.24 lacs is explained to have been incurred by Tarini as per their email dated April 04, 2016. I find that Investigation has not made any adverse findings nor any allegation has been leveled against the Noticees with regard to the utilization of the issue expenses, hence the same is not being discussed further in this order.

46. To sum up the above discussions and findings with respect to the first issue, pertaining to utilization of IPO proceeds under the five broad objects/ heads as per the IPO documents, I find that:

- (i) A sum of ₹.9.60 crores has been transferred to 5 different group entities as listed out in the table at para 20 of this order. The amount has been

diverted to the group entities soon after receiving the IPO proceeds which was later regularized in books by way of execution of ex-facto loan agreements with the respective group entities

- (ii) A sum of ₹.2.85 crores claimed under different heads by Tarini as third-party pay-outs under the larger head of working capital as per the table under para-31 was found to be not supported by adequate explanation and evidence and much of these expenditures which are paid to different entities, are found to be unexplained and in deviation to the stated objects of the Prospectus.
- (iii) Out of ₹.1.60 crores committed for spending on renovation and interior work of Registered office in the prospectus, ₹.1.2 crore is claimed to have been paid to a group entity, B Soilmec Pvt. Ltd. in the name of renovation and interior work but in actuality it was paid on the basis of a loan agreement with the said company, thus amounting to diversion of the said amount to the group company.
- (iv) ₹.91.89 lacs out of ₹.94.26 lacs claimed to have been incurred for general corporate expense by Tarini as per the Table at para-41 was found to have been paid to a group entity of Tarini viz. Tarini Sugars & Distilleries Ltd. in connection with setting up of a sugar factory by the said group company.

**Issue ii -Whether IPO proceeds were diverted for funding the purchase of its own shares in violation of disclosure made in the prospectus?**

47. As stated at para-16, Tarini has furnished the details of ₹7.94 crores transferred by it mostly to various group entities out of IPO proceeds ostensibly to meet their working capital needs. In this regard, while examining the bank statement of the group companies during Investigation, it was found that there are a number of instances where after receiving funds from Tarini, some of the group entities, have

in turn, transferred substantial amounts (out of the funds received from Tarini) to different unrelated third parties. These instances of fund transfers to third parties have been presented in the table below:

SI	Name of the Tarini group entity	Amount received from Tarini	Date	Paid to	Amount in ₹	Date
1	Tarini Infrastructure Ltd.	1,00,00,000	26-Jun-14	Shallot Vincom Pvt. Ltd.	82,50,000	26-Jun-14
				Shallot Tieup Pvt. Ltd.	17,50,000	26-Jun-14
2	Tarini Sugar and Distilleries Ltd.	1,00,00,000	26-Jun-14	Shallot Vincom Pvt. Ltd.	17,50,000	26-Jun-14
				Shallot Tieup Pvt. Ltd.	82,50,000	26-Jun-14
3	Venture Infrastructure Ltd.	1,00,00,000	26-Jun-14	Shallot Deal Trade Pvt. Ltd.	84,00,000	26-Jun-14
				Shallot Deal Trade Pvt. Ltd.	16,00,000	26-Jun-14
4	B Soilmec India Private Ltd.	1,50,00,000	01-Jul-14	Equator Financial Services Ltd.	1,50,00,000	01-Jul-14
5	Tarini Wilderness Innovation	50,00,000	01-Jul-14	PRSSB Services Ltd.	50,00,000	01-Jul-14
6	Tarini Wilderness Innovation	10,00,000	01-Jul-14	PRSSB Services Ltd.	10,00,000	11-Jul-14



SI	Name of the Tarini group entity	Amount received from Tarini	Date	Paid to	Amount in ₹	Date
7	Tarini Wilderness Innovation	5,00,000	30-Jul-14	PRSSB Services Ltd.	5,00,000	30-Jul-14

48. As may be observed from the above table, some of the prominent third parties who have received money from Tarini group entities are Shallot Vincom Pvt. Ltd., Shallot Tie Up Pvt. Ltd., Shallot Deal Trade Pvt. Ltd., PRSSB Services Ltd. (hereinafter referred to as PRSSB) etc. As per the explanation offered by the Noticees, the Shallot group companies have been paid by Tarini Infra, Tarini Sugar, Venture Infra (Sl. No. 1 to 3 of the table) mainly for the purpose of acquiring second hand plant and machinery for sugar factory and co-generation plant. As regards the funds transferred to PRSSB by Tarini Wilderness Innovation (Sl. No. 5 to 7 in the table), it was submitted by Tarini that it was a loan to PRSSB. However, in support of the said loan, only documents submitted was a letter from Tarini Wilderness to PRSSB seeking confirmation of balance of ₹65,00,000 as on March 31, 2015. The account did not have any entry for charging interest and it was noticed that Tarini Wilderness transferred the amounts received from Tarini to PRSSB on the same day of receipt. No loan agreement between the two entities has been produced to authenticate that the money transferred to PRSSB Ltd. was indeed a loan transaction.

49. With respect to sum of ₹1.5 crores paid to Equator Financial Services Ltd. (sl. No. 4 in the table) by Soilmec, (a Tarini group company) it was submitted that the same was an interest bearing loan @12% interest given to Equator Financial Services and TDS has been deducted on the interest received for FY 2014-15. Copy of the TDS certificate has been provided to support their claim that the

amount was advanced as a loan by Soilmec to Equator Services. I note that investigation has not made any adverse inference with regard to the payment made to Equator.

50. During the investigation it was observed that one of the Shallot group companies viz. Shallot Tie Up Ltd. and also PRSSB Services Ltd. have purchased substantial quantities of shares of Tarini, prima facie by using the money which was received by them from Tarini group entities as depicted in the aforesaid table. The details of purchase of equity shares of Tarini by the above mentioned two companies are as follows:

Buyer Name	Trade date/s	Total buy qty.	Out of the same, bought from the original allottees (no. of allottees)	Avg. Rate	Total value
Shallot Tieup Pvt. Ltd	June 26, 2014 ( <i>day of listing of Tarini shares</i> )	1,23,000	1,20,000 (27)	36.05	44,35,380
PRSSB	July, 4, 7,8,9	1,62,000	1,62,000 (54)	41.09	66,57,300

51. There is no denial to the fact that the above two unrelated companies viz. Shallot Tie Up and PRSSB have used the funds so received from Tarini group entities for the purchase of equity shares of Tarini almost immediately after the receipt of the funds. As indicated in the table above, the aforesaid two entities have purchased

the shares from the original allottees either on the day of listing or a few days after the listing. This has been responded by the Noticees by stating that the original allottees are free to sell their shares after allotment and the Noticees are not responsible for the purchase of shares from the original allottees by the above entities. Although the immediate proximity between the dates of fund transfer and purchase of shares make it prima-facie clear that these 2 entities have used IPO proceeds transferred to them by Tarini group companies for purchase of shares of Tarini, the Noticees have denied that Tarini has used the IPO proceeds to buy its own shares. The discussions in the following paragraphs will throw more clarity on these transactions.

52. I note that at para 29 in page 42 of the IPO Prospectus, the issuer company has stated that *No payment, direct, indirect in the nature of discount, commission and allowance, or otherwise shall be made either by us or by our Promoters to the persons who receive allotments, if any, in the issue*". However certain transactions made by Tarini group entities as captured in the above table at para-47 apparently contradict the above postulation by Tarini in its Prospectus. As noted in the table discussed at para-47 above, through its group/promoter related companies viz; Tarini Infrastructure Limited, Tarini Sugar and Distilleries Limited and Venture Infrastructure Ltd., Tarini has transferred its IPO proceeds to Shallot group of companies. For example, Shallot Vincom and Shallot Tie up have together received ₹ 100.00 Lakh from Tarini Infrastructure Ltd. as well as from Tarini Sugar & Distilleries Ltd. respectively on June 26, 2014. These amounts are part of the IPO proceeds that has been routed by Tarini through the two group companies. As discussed in the context of utilization of IPO proceeds under the head of "working capital", Tarini had transferred funds to various group companies including the above named two entities on June 26, 2014, much before executing the loan agreements with them. These two entities, in turn, have transferred funds on the same day (June 26, 2014) to Shallot group of companies as can be seen from the

above table. The Noticees have claimed that the shares of Tarini were purchased by Shallot Tie Up on 01<sup>st</sup> of July 2015 @ ₹36.05, i.e. one year after the IPO i.e. more than 1 year after receiving the money from Tarini group entities. However, the actual date of purchase of shares by Shallot Tie Up is not July 1, 2015 but July 1, 2014 as clarified there under.

53. SEBI vide email dated November 24, 2014 asked Shallot to explain the reason for the receipt of funds from the said Tarini group of companies to which Shallot has responded stating that the funds were received inter-alia, to purchase the 1,23,000 shares of Tarini. I find that, inadvertently, in the email of Shallot, the date of transaction in the scrip of Tarini has been mentioned as July 1, 2015 instead of July 1, 2014, which is the actual date of purchase of Tarini shares by Shallot Tie Up. The typographical error in mentioning the date is supported by the fact that the purchase price of ₹36.05 per share was available only in July 2014 while price of the scrip of Tarini was in the range of ₹13-15 only in July 2015. Thus the explanation earlier offered by the Noticees that the money that was transferred to Shallot group companies was meant for acquiring second hand plant & machinery for sugar factory, turned out to be false on the face of such a categorical response received from Shallot, who have candidly admitted that the fund was received to purchase of shares of Tarini. It is noticed that Shallot Tie up Ltd. had bought 1,23,000 shares of Tarini on 01 of July 2014, out of which 1,20,000 shares were bought from the original allottees. It may be noted that there was no other transaction executed between Tarini group of companies and Shallot group of companies during the period July, 2013 to June 30, 2015. The Noticees have thus failed to submit any documents in support of their explanation justifying the transfer of funds to Shallot and have also not submitted any rebuttal to the claim of Shallot that the funds received from Tarini group of companies were meant for purchase of shares of Tarini. Therefore I am constrained to conclude that some

proceeds of IPO have been utilized by Tarini for buying its own shares by engaging Shallot Tie Up Pvt. Ltd. as a conduit in violation of the stated objects of the IPO.

54. Adverting to the funds that have been transferred by Tarini through its related entity Tarini Wilderness Innovations Pvt. Ltd. to PRSSB, it is found that ₹65.00 Lakh have been transferred in three transactions of ₹50.00 lakh, ₹10.00 lakh & ₹5.00 Lakh during the month of July, 2014. In this regard, it was observed during investigation that 54 persons had originally applied and subscribed to the shares of Tarini in the IPO, through a broker named Pravin Ratilal Share & Stock Brokers Ltd (hereinafter referred to as "Pravin"), who is a group company of PRSSB. It has been alleged that Tarini through its related entities has transferred funds to PRSSB to buy these shares back from the original allotted entities and thus has allegedly misutilised its IPO proceeds to buy its own shares by using PRSSB as a conduit.

55. I note that the Noticees have not disputed to the above transactions. It is only claimed that the funds were transferred to PRSSB as a loan. However no further supporting details have been made available in support of the said loan advanced to PRSSB. It is found that PRSSB, which is a group company of Pravin, bought through market transactions the shares from the 54 persons who were originally allotted the shares of Tarini in the IPO. It is also found that both the transactions i.e. buy order from PRSSB and sell orders for 1,62,000 shares from the 54 original allottees were executed through the same trading terminal thereby exposing the nexus between PRSSB and the original allottees. PRSSB has bought these shares between 4<sup>th</sup> and 9<sup>th</sup> July, 2014 for an amount of ₹66,57,300 for which an amount of ₹65,00,000 was transferred from Tarini through its group company to PRSSB on 1<sup>st</sup> July, 2014 (₹50 lacs) followed by 15 lacs on 11<sup>th</sup> and 30<sup>th</sup> July,

2014. Therefore, it is clear that Tarini used proceeds of IPO for buying its own shares by using PRSSB as a conduit, in violation of the stated objects of the IPO.

**Issue III Whether loan of ₹5.50 crores taken from Hind Ispat between the date of prospectus and date of allotment was disclosed by issuing public notice in newspapers?**

56. As discussed in the beginning, a loan of ₹550.00 Lakh was obtained by Tarini from Hind Ispat on 16 and 17 of June 2014 i.e. between the date of prospectus (May 23, 2014) and date of allotment (June 24, 2014) which was later repaid out of the proceeds of IPO. However, this fact was not disclosed by Tarini by issuing a public notice in newspapers as required under relevant regulations, hence, Tarini has been alleged to have violated Regulation 60(4) of SEBI (ICDR) Regulations 2009.

57. Regulation 60 (4) states as below:

*“The issuer shall make prompt, true and fair disclosure of all material developments which take place during the following period mentioned in this sub-regulation, relating to its business and securities and also relating to the business and securities of its subsidiaries, group companies, etc., which may have a material effect on the issuer, by issuing public notices in all the newspapers in which the issuer had issued pre-issue advertisement under regulation 47 or regulation 55, as the case may be:*

- (a) in case of public issue, between the date of registering final prospectus or the red herring prospectus, as the case may be, with the Registrar of Companies, and the date of allotment of specified securities;*
- (b) ...”*

58. In this regard, Tarini has submitted that the receipt of loan from Hind Ispat was informed to its Merchant Banker verbally and the same was also disclosed by issuing press releases, hence for any default on this count, merchant banker should be held accountable. Tarini also provided the copies of various newspaper clippings in support of its reply. Tarini has also requested to allow them to cross examine the representative of Merchant Banker, who have denied having received any such information from them, verbally or otherwise.

59. I note that the aforesaid provisions of ICDR regulations governing such disclosure imposes a duty on the issuer company. Tarini has not submitted any documentary evidence to show its communication with the Merchant Banker in this matter. From the perusal of the newspaper clippings furnished by Tarini, I find that the same were the news items that appeared in various newspapers about the IPO programme of Tarini. They are not any “public notices” issued by Tarini about availing of loan from Hind Ispat. In view of the above, I find that Tarini has failed to disclose its loan transaction executed between the date of prospectus and the date of allotment and by not issuing public notices in all the newspapers in which the company had issued its pre-issue advertisement, Tarini has violated the requirements prescribed under regulation 60(4) of the ICDR Regulations r. As regard the cross examination of merchant banker, I am of the view that the contention made by the merchant banker by way of email could be easily rebutted/denied or contradicted by the notices by way of supporting documents to demonstrate that they have timely communicated to the merchant banker about the loan availed from Hind Ispat and the alleged failure to make disclosure entirely rests on the merchant banker. I also note that Noticees have till date not initiated any action against the merchant banker if they hold that the merchant banker is responsible for the non-disclosure of loan transaction to the public. Further, the Noticees have not appeared before me for personal hearing despite repeated reminders and adjournment, hence there was no occasion for me to even discuss

with them about the necessity or otherwise, of the cross examination, as requested by them. Moreover, the merchant banker has neither been examined nor has it given any statement under oath before any official of SEBI, which can suo moto warrant any cross examination under law. Instead of discharging their onus of proving their claim that they had timely informed the merchant banker about their loan transaction with Hind Ispat, the Noticees have evaded my notices and reminders under the pretext of cross examination of merchant banker, which is devoid of any merit, hence is not acceptable.

### **Concluding Observation and Director**

60. As stated in the beginning of this order, Tarini had come out with an IPO to raise money to the tune of in ₹ 16.30 Crore. I have examined the allegations levelled in the SCN against Tarni and other Noticees based on the findings of the investigation done by SEBI and also have examined the transactions through which the IPO proceeds have been claimed to have been utilized. After considering the replies submitted by the Noticees, I am now convinced that Tarini has not utilized the proceeds the IPO proceeds in conformity with the objects of IPO as stated in the prospectus. The Investigation reveals that only a part of the IPO proceeds has been utilized in line with the objects of the prospectus while the a major portion of the proceeds have been diverted towards utilization mostly by the group/associate companies of Tarini.

61. As discussed earlier, Tarini has diverted approximately a sum of ₹ 9.60 crores in the form of loans to different group entities under the head “working capital requirements”. Also about ₹ 1.20 crores has been paid to a group entity under the head of renovation expenses and ₹ 91.89 lakhs to another group entity in the name of corporate expenses. The entity wise diversion of IPO proceeds has been



aggregated in the following table:

SI	Name of the Entity	Amount Diverted (₹)	Purpose
1.	Tarini Infrastructure Ltd.	4,00,00,000	Working capital
2.	Tarini Sugars & Distilleries Ltd.	2,00,00,000	Working capital
		91,89,000	General Corporate Purpose
3.	B. Soilmec India Private Ltd.	1,20,00,000	Working Capital
		60,00,000	General Corporate Expenses
4.	Venture Infrastructure Ltd.	1,75,00,000	Working Capital
5.	Tarini Wilderness Innovation Pvt. Ltd.	1,25,10,000	Working Capital
	<b>Total</b>	<b>11,71,99,000</b>	

62. After discussing at length about the utilization of IPO proceeds, I note from the above table that Noticees have straightway diverted or utilized IPO proceeds to the tune of ₹11.71Crore (approx.) for purposes other than the commitments made under the object of IPO in the Prospectus. These amounts have been channelized to the accounts of other group entities mostly in the form of loans and advances or under the garb of renovation & interior or general corporate expenses. Prima facie the above sum of money was transferred to the group companies as soon as the IPO proceeds were received. Bulk of the IPO proceeds was also seen to have been transferred much before executing a formal loan agreement with the group entities demonstrating the sense of urgency of the promoters and directors of Tarini to divert the IPO proceeds to the accounts of group companies. Thus, there is a clear cut diversion of at least ₹11,71,99,000/- from the IPO proceeds out of the total utilization of ₹15.98 crores furnished by Tarini vide its email dated

April 04, 2016, presented at para-13 of the order.

63. Out of the remaining amount also, substantial amounts have been apparently misappropriated by the Noticees which is evident from the fact that except for the expenditure incurred for the purposes such as brand building and issue expenses, the claims made by the notices towards administrative expenses and payment of salary etc. are not supported by any reliable explanation or evidence. I have already pointed out how the expenses aggregating to ₹2.85 crores at para-31 of this order remain unsubstantiated by the Noticees. However, from the materials available on record, I find that the exact extent of such mis-utilisation or misappropriation of IPO proceeds under various heads of administrative expenses and the entities/ persons to whom such payments have been made are not ascertainable in clear terms. The expenses incurred under these heads to a large extent remain unexplained but having been paid off/remitted to various third parties and for different administrative purposes are difficult to be retrieved or to get refunded back by the Noticee company. However, transfer of IPO proceeds to the group/associate companies, under the guise of extending loan, renovation and general corporate expenses etc., are undisputed by the Noticees and are also clearly ascertainable in exact quantum. As tabulated under para 61 above, a sum of Rs.11,71,99,000 has been diverted to group entities out of the IPO proceeds in gross deviation from the stated objectives of the IPO, hence, the entire sum deserves to be called back to the account of Tarini, at the earliest so that the same can be utilized for the business requirements, in the interest of the shareholders of Tarini.

64. Thus, going by the amounts of funds diversions to group entities as tabulated above, there remains no doubt that Tarini has transferred a major portion of IPO proceeds to its group/associate companies wherein the Noticee No 2 & 3 are

having controlling interest/major stake. The very objectives of the IPO as identified in the Prospectus were for meeting long term working capital requirements, renovation of the registered office etc. were defeated by the deliberate acts of the company, its MD and the Whole Time Director. I find that the Noticees have concealed/failed to make material disclosures in the Prospectus regarding their actual intention to use the proceeds thereby depriving its prospective investors of a precious and vital information that their money, meant to be invested in Tarini, would actually be utilized by entities other than the Issuer Company. This clearly amounts to a breach of trust reposed by the investors in Tarini and its Noticee directors as they have failed to come clean and inform the investors all the material facts in the Prospectus as required under law.

65. From the facts discussed above, it is clear that Tarini and the Noticee directors knowingly utilized the issue proceeds for the purposes other than as stated in the prospectus to help its group companies. I note that Tarini has not only failed to disclose the fact that the proceeds of its IPO would be substantially utilized for its group companies but also has made wrong, misleading statements and concealed crucial material information such as loan taken from Hind Ispat prior to the IPO, from the investors. Therefore noticees have violated the Regulations 57(1), and 60(7)(a) of SEBI (ICDR) Regulations 2009, which mandates that Issuer Company shall make all material and adequate disclosures in the offer document, which are true and adequate enough to enable the share applicants to take an informed investment decision. The offer document should contain information, which shall be truthful, fair and shall not be manipulative or deceptive or distorted and it shall not contain any statement, promise or forecast which is untrue or misleading. However, going by factual analysis in the preceding paragraphs, by concealing material information and by providing information in a distorted manner in the offer document, The Noticees have committed a fraud on the investors. The above act of Noticees have resulted in creating a misleading appearance about

the prospect of Tarini IPO in the securities market so much so to mislead and induce the investors to subscribe to the IPO, thereby violating Section 12A(a),(b)(c) of SEBI Act 1992 r/w Regulations 3 (a),(b),(c) and (d), 4 (1), 4 (2) (f) and (k) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003. Had the prospective investors been aware of the exact utilization of the IPO proceeds that was weighing in the minds of the Noticees at the time of issuing offer documents, the investors certainly would have taken their investment decisions differently in a more informed manner.

66. The fraudulent manner in which the Noticees have handled the IPO proceeds reflect the opaqueness with which the entire IPO has been carried out by Tarini and its Directors and exhibits a kind of conspiracy against the innocent investors by the Noticees, who misled them without making proper disclosures about their true intentions about utilization of the IPO proceeds and later on diverted such proceeds through unfair methods, in disregard to the provision of SEBI Act and regulation as detailed under in the SCN.

67. In this context it will be relevant to refer the view held by the Hon'ble Securities Appellate Tribunal in the matter of HSBC Securities and Capital Markets (India) Private Ltd. v. SEBI, SAT Appeal No. 99 of 2007, stating that *"an incorrect or wrong information in a letter of offer or other similar documents issued for the benefit of investors in general could lead to serious consequences including loss of credibility for the market operators and for the regulatory system. This kind of failure has to be taken very seriously by the market regulator"*.

68. It is also relevant here to refer to the judgment of the Hon'ble Securities Appellate Tribunal in the matter of V. Natarajan vs. SEBI, SAT Appeal No.104 of 2011, wherein it was held that:-

*"... we are satisfied that the provisions of Regulations 3 and 4 of the Securities*

*and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, were violated. These regulations, among others, prohibit any person from employing any device, scheme or artifice to defraud in connection with dealing in or Issue of securities which are listed or proposed to be listed on an exchange. They also prohibit persons from engaging in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities that are listed on stock exchanges. These regulations also prohibit persons from indulging in a fraudulent or unfair trade practice in securities which includes publishing any information which is not true or which he does not believe to be true. Any advertisement that is misleading or contains information in a distorted manner which may influence the decision of the investors is also an unfair trade practice in securities which is prohibited. The regulations also make it clear that planting false or misleading news which may induce the public for selling or purchasing securities would also come within the ambit of unfair trade practice in securities... .. A basic premise that underlies the integrity of securities market is that persons connected with securities market conform to standards of transparency, good governance and ethical behaviour prescribed in securities laws and do not resort to fraudulent activities."*

69. Further, it would be also appropriate here to refer to the following observations made by the Hon'ble Supreme Court in its judgment dated April 26, 2013, in N. Narayanan v. Adjudicating Officer SEBI (Civil Appeal Nos.4112-4113 of 2013) wherein the Hon'ble Apex court have held that "*SEBI, the market regulator, has to deal sternly with companies and their Directors indulging in manipulative and deceptive devices, insider trading etc. or else they will be failing in their duty to promote orderly and healthy growth of the Securities market. Economic offence, people of this country should know, is a serious crime which, if not properly dealt with, as it should be, will affect not only country's economic growth, but also slow*

*the inflow of foreign investment by genuine investors and also casts a slur on India's securities market. Message should go that our country will not tolerate "market abuse" and that we are governed by the "Rule of Law". Fraud, deceit, artificiality, SEBI should ensure, have no place in the securities market of this country and 'market security' is our motto."*

70. In the present case, Noticees have acted in a manner highly detrimental to the interests of investors in securities market. The rulings of the Hon'ble Supreme Court and the decisions of Securities Appellate Tribunal discussed in the preceding paragraph squarely apply to the facts of the instant case. The violations of law on the part of Tarini and its Directors, if not dealt with sternly, could give rise to a situation of mistrust where raising of capital would become extremely difficult even for honest companies. The SME segment launched by the Stock Exchanges is a very special segment with relaxed compliance norms specially created for encouraging MSME Sector companies to raise money from the public for meeting their business needs. Keeping in view the importance of SME sector as a vibrant sector for providing employment, the SME platform makes it easier for such enterprises to raise capital through issuance and listing of securities. Tarini has utilized this segment for raising capital and instead of utilizing the IPO proceeds in a responsible manner, have mis-utilized and misappropriated by way of diversion of the IPO proceeds and unexplained expenditures. Such acts, if not checked, would not only violate the provisions of Securities Law but also would erode the confidence of investors even in the genuine SME companies.

71. Coming back to the amount of IPO proceeds transferred by Tarini to its group entities as loan, as per the available information, it cannot be ascertained whether Tarini has actually received any interest payments from the group entities on the said loans and advances given to them out of the IPO proceeds. I find from the Annual Report of Tarini for FY2017-18 that the Auditors have stated that "*In*

*respect of loans to group companies, since the schedule of repayment of principal and interest is not stipulated, they are unable to comment as to whether the repayment of principal and interest payment has been regular or not.* Under these circumstances, in the fitness of things, at least the funds transferred to the group entities aggregated at para 61 of this order needs to be called back along with applicable interest as per the terms of the respective loan agreements. After perusing the comments of the auditors, I find that the bonafide of the loan transactions entered into by Tarini with group entities is shrouded in suspicion, adding further to the opaqueness of the entire arrangement by Tarini with its group entities.

72. For the reasons detailed in the preceding paragraphs, it is clear that Tarini and its Directors have diverted IPO proceeds purportedly to meet the financial needs of its group entities. While only a negligible portion of proceeds of IPO seems to have been utilized for the objects stated in the Prospectus, a substantial portion of the IPO proceeds have been diverted by Tarini in gross deviation from the stated objects for raising funds through IPO. Thus, the Noticees, by resorting to unfair means behind the back of innocent investors have concealed material information from them and have deliberately published distorted and misleading information in the Prospectus in which, the proposed projects of the Issuer company turned out to be the projects of other group companies and not of the issuer company. The documents published for information of the investors never stated that the IPO proceeds would be mainly utilized by the group/associate companies of the Issuer. Further, Tarini has failed to disclose the loan obtained by it from Hind Ispat after filing offer document and just before the allotment of its shares. Under the circumstances, Tarini and its Directors have thus grossly violated Regulations 57(1), 60(4)(a) and 60 (7)(a) of the ICDR Regulations, 2009.

73. I note that SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 has been rescinded and SEBI (Issue of Capital & Disclosure Requirements)

Regulations, 2018 (hereinafter referred to as “ICDR, 2018”) as notified on 11/09/2018 and has been brought into force from sixtieth day from 11/09/2018. Regulation 301 of ICDR, 2018 provides as under :

Repeal and Savings

301. (1) On and from the commencement of these regulations, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements), Regulations 2009 shall stand rescinded.

(2) Notwithstanding such rescission:

a) anything done or any action taken or purported to have been done or taken including observation made in respect of any draft offer document, any enquiry or investigation commenced or show cause notice issued in respect of the said Regulations shall be deemed to have been done or taken under the corresponding provisions of these regulations.

b) any offer document, whether draft or otherwise, filed or application made to the Board under the said Regulations and pending before it shall be deemed to have been filed or made under the corresponding provisions of these regulations.

Thus, the present proceeding is saved by above mentioned regulation of ICDR, 2018.

74. Keeping in view the foregoing discussions and observations, I, in exercise of the powers conferred upon me by virtue of Section 19 read with Sections 11(1), 11(4) and 11B of the SEBI Act read with PFUTP Regulations and the ICDR Regulations, 2009 read with Regulation 301(2)(a) of SEBI (ICDR) Regulations, 2018 hereby direct as under;



- (A) Noticee no. 1(Tarini International Limited) is directed to bring back/ recover the proceeds of IPO aggregating to ₹ 11,71,99,000, as identified in this order under para 61, which have been transferred/ passed to it group/associate entities. The diverted amount shall be brought back along with interest (as per the terms of the loan agreements executed with the respective group entities) within a period of 45 days from the date of this order.
- (B) All the Noticees are directed to furnish the latest/ updated inventory of all their assets and properties, both immovable and movable, and details of their bank accounts, demat accounts and holdings of mutual funds/shares/securities, held in physical form and demat form, within 21 days from the date of receipt of this order.
- (C) All the Noticees are further directed to provide the latest/ updated inventory of all assets, properties (both immovable and movable), details of all bank accounts, demat accounts and holdings of mutual funds/shares/securities, held in physical form and demat form as on date in respect of the group entities mentioned under para 61 of this order viz; Tarini Infrastructure Ltd., Tarini Sugars & Distilleries Ltd., B. Soilmec India Private Ltd., Venture Infrastructure Ltd. and Tarini Wilderness Innovation Pvt. Ltd. The said information shall be provided by the Noticees within 21 days from the date of receipt of this order.
- (D) All the Noticees are prohibited from selling, transferring, directly or indirectly, assets, properties (both immovable and movable) and holding of mutual funds/shares/securities held in both demat and physical form by them as well as held by group entities from whom IPO proceeds is directed to be called back, except for the sole purpose of restoring the diverted funds to the accounts of Tarini in compliance with the direction at 74(A) above. It is clarified that the Noticee no. 2 & 3 shall have to ensure and facilitate the compliance of the directions by Noticee No 1.
- (E) All the Noticees shall file a compliance report with SEBI, with details of restoration/ recovery of IPO proceeds with interest from the group entities,

within a period of 60 days from the date of this order. The said report shall be certified by a peer reviewed Chartered Accountant, already empanelled by a public authority or public financial institution. For the purpose of this Order, a peer reviewed Chartered Accountant shall mean a Chartered Accountant, who has been categorized so by the Institute of Chartered Accountants of India ("**ICAI**") holding such a certificate.

- (F) Noticee no. 1 (Tarini International Limited ) and the directors namely, Noticee no. 2 (Mr.Vakamulla Chandra Shekhar) and Noticee no. 3 ( Mrs. Vakamulla Anu Naidu)), are directed not to, access the securities market, directly or indirectly by issuing prospectus, offer document or advertisement soliciting money from the public and are further restrained and prohibited from buying, selling or otherwise dealing in the securities market, directly or indirectly in any manner whatsoever, from the date of this direction becoming effective, till the expiry of **four** years from the date of completion of recovery of the diverted funds with interest ( in terms of para 61 of this order) from the group entities into the account of Noticee no 01. It is clarified that during the period of restraint, the existing holding, including units of mutual funds, of the aforesaid directors shall remain frozen.
- (G) All the Noticees are restrained from associating themselves with any listed public company and/or any public company which intends to raise money from the public, or any intermediary registered with SEBI from the date of this direction becoming effective till the expiry of **four** years from the date of recovery of the IPO proceeds as directed above at 74(F).
- (H) This Order is hereby being issued without prejudice to any other action that SEBI may initiate under securities laws, as deemed appropriate.
- (I) The above directions shall come into force with immediate effect.

75.A copy of this order shall be served upon all recognized Stock

Exchanges, Depositories and the Registrar and Share Transfer Agents to ensure compliance with the above directions.

**-Sd-**

**DATE: March 29, 2019**

**PLACE: MUMBAI**

**S.K. MOHANTY  
WHOLE TIME MEMBER  
SECURITIES AND EXCHANGE BOARD OF INDIA**