

WTM/MPB/SEBI/ISD/ 65 /2018
BEFORE THE SECURITIES AND EXCHANGE BOARD OF INDIA
CORAM: MADHABI PURI BUCH, WHOLE TIME MEMBER

ORDER

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

***In re* Securities and Exchange Board of India (Listing Obligations and Disclosure
Requirements) Regulations, 2015**

IN THE MATTER OF

S. NO.	NAME	PAN
1	Info-Drive Software Limited	AAACI9430R

1. Securities and Exchange Board of India (hereinafter referred to as "SEBI"), in the interest of investors, vide its letter dated August 7, 2017 took pre-emptive interim measures under section 11(1) of Securities and Exchange Board of India Act, 1992 ("SEBI Act"), in respect of certain listed companies identified as "shell companies" by the Ministry of Corporate Affairs including Info-Drive Software Limited (hereinafter referred to as "ISL" / "Company"). In view of the said objective, SEBI vide the said letter dated August 7, 2017 also placed the scrip of ISL in the trade to trade category with limitation on the frequency of trades and imposed a limitation on the buyers by way of 200% deposit on the trade value, so as to alert them while trading in the scrip. The said measures were initiated by SEBI pending final determination after verification of credentials and fundamentals of the company by the exchanges, including by way of audit and forensic audit, if necessary. The measures also envisaged, on the final determination, delisting of the company from the stock exchange, if warranted. By virtue of these measures, trading in the scrip was not suspended, but was allowed under strict monitoring so that investors could take informed investment decisions till SEBI and Stock Exchanges complete detailed examination of such companies.
2. Aggrieved by the aforesaid letter dated August 7, 2017 issued by SEBI, ISL filed an appeal No. 197 of 2017 before Hon'ble Securities Appellate Tribunal (hereinafter referred to as "SAT"). Hon'ble SAT vide order dated August 23, 2017 allowed ISL to withdraw the appeal with liberty to pursue the representation filed before SEBI against the said letter dated August 7, 2017. Hon'ble SAT directed SEBI to dispose of the representation of ISL as expeditiously as possible and in any event within a period of

three weeks from August 23, 2017. Hon'ble SAT also held that passing of any order on the representation made by the appellant would not preclude SEBI from further investigating the matter and initiate appropriate proceedings if deemed fit.

3. Pursuant to the decision of Hon'ble SAT that the communication of SEBI dated August 7, 2017 is in the nature of *quasi-judicial* order, in the interest of natural justice, an opportunity of personal hearing was granted to ISL on September 4, 2017. The authorized representative of ISL had appeared for the said hearing.
4. Thereafter, SEBI vide interim order dated September 13, 2017 (hereinafter referred to as "*interim order*"), had modified, subject to para 23 of the interim order, the actions envisaged in SEBI's letter dated August 07, 2017 and the consequential actions taken by Stock Exchanges, against ISL as under:
 - i. *The trading in securities of ISL shall be reverted to XD group of BSE with applicable price band.*
 - ii. *Exchange shall appoint an independent auditor to conduct forensic audit of ISL for verification, including the credentials/financials of ISL.*
 - iii. *The promoters and directors in ISL are permitted only to buy the securities of ISL. The shares held by the promoters and directors in ISL shall not be allowed to be transferred for sale by depositories.*
 - iv. *The other actions envisaged in SEBI's letter dated August 07, 2017 in para 1 (d) as may be applicable, and the consequential action taken by Stock Exchanges shall continue to have effect against ISL.*
5. Vide the interim order, SEBI had advised ISL to file its reply/objections to the said interim order within 30 days from the date of receipt thereof and also indicate in its reply whether it desires to avail an opportunity of personal hearing on a date and time to be fixed on a specific request made in that regard.
6. Vide an email dated September 14, 2017, a copy of interim order was forwarded to ISL. A physical copy of interim order was also sent to ISL vide letter dated September 14, 2017 on its address on record, and the same was delivered.

Reply and hearing

7. ISL submitted its reply/objections to the Interim order vide letter dated October 12, 2017. The reply of ISL with respect to the specific observations of the interim order is as under:

Observations of the interim order:

- A. Para 17 (1): *The auditor in his independent report has mentioned that he has not audited the financial statements of subsidiary companies. Further, these financial statements and other financial information have been incorporated in the consolidated financial statement based on the unaudited financial statements provided by the management of the company.*

ISL's Reply:

ISL submitted that statutes in certain jurisdiction outside India do not have provisions of law requiring audit of accounts under the local laws. In absence of any such legal requirement, it is generally the practice of the company to furnish management certified financial statements which are based on books of accounts and other relevant documents and never has the auditor ever expressed an opinion that the financial statements so certified do not reflect a true and fair view nor have there been any adverse comments to that effect and the same does not in any way affect the true and fair concept of the financial statements of the company.

Observations of the interim order:

- B. Para 17 (2) (a): *The Company has granted loans to three wholly owned subsidiary companies. However, no formal schedule of repayment has been made for receipt of principal amount and as such in the absence of such repayment schedule, the auditor is unable to comment if the same are being repaid timely.*

ISL's Reply:

ISL inter alia submitted that *"The Company's audit report order 2015 (CARO 2015) specifies that the auditor should mention in his report on whether the loans given to parties covered under Section 189 are being repaid and whether the company has taken reasonable steps for recovery of principal and interest. Further, it is submitted that it has given interest free advances to wholly owned subsidiaries and not to third parties and since these loans are repayable on demand there is no repayment schedule. Consequently, the auditor has therefore stated the absence of repayment schedule and there is no adverse conclusions as to whether there loans are prima facie prejudicial to the interest of the company. The issue to be considered here is that these loans/advances are to wholly owned subsidiaries and not any third parties"*.

Observations of the interim order:

- C. Para 17 (2) (b):The Company is not regular in depositing the Income Tax dues and Tax Deducted at Source (TDS) in to the Government Account.

ISL's reply:

ISL submitted that *“there has been a delay in depositing the tax deducted at source due to the working capital crunch faced by the company and the same is in the normal course of business as there has been delay in recovering the receivables from customers. The delays were also compounded by the fact that the bank accounts of the company were frozen by the Income Tax Department, which paralyzed the operations of the company.”*

Observations of the interim order:

- D. Para 17 (3):The total revenue income disclosed by the company in its annual results (standalone) for the F.Y. 2016-17 is not matching with the aggregate results submitted for four quarters. The extract of the results is tabulated below:

(Rs.in Crore)

Particulars	Jun 16	Sep 16	Dec 16	Mar 17	Total arising out of quarterly results	Annual Results
Employee benefit	4.00	4.65	4.36	11.95	24.96	16.31
Revenue	4.32	4.35	4.44	17.23	30.34	21.67
Operating Expense	4.02	4.06	4.22	16.84	29.14	21.06

ISL's Reply:

ISL inter-alia submitted that *“during the submission of our quarterly financial statements with SEBI, due to clerical and typographical errors we had inadvertently submitted incorrect numbers for the quarter ended 31st March, 2017. This was immediately rectified and we had submitted the correct numbers vide our letter dated 14th June, 2017 which was subsequently taken on record by BSE. The reconciliation of the said numbers is tabulated below:*

(Rs. in Crore)

Particulars	Jun 2016	Sep 2016	Dec 2016	Mar 17 (numbers as submitted to BSE)	Total of Quarterly Results	Annual Results
Employee Benefit*	0.04	0.0465	0.0436	0.0329	0.163	0.163
Revenue	4.32	4.35	4.44	8.56	21.67	21.67
Operating Expenses	4.02	4.06	4.22	8.75	21.05	21.05

* The figures stated against “employee benefit” in the interim order were erroneously mentioned in “crore” instead of “lakhs”.

Observations of the interim order:

- E. Para 17 (4): As mentioned in the page no.65 & 95 point aa of notes on Consolidated Financial Statements for the year 2015-16 “The value of investment in Info-Drive Software Inc, USA (Wholly owned subsidiary) have diminished and eroded the entire capital of the company as on the date of balance sheet. However, no provision for such diminution in value of investment is made in the books of company”.

ISL’s Reply:

The US Subsidiary is a going concern, albeit the fact that the company had temporarily suspended operations due to the global meltdown. The Company is therefore of the view that there is no diminution in the value of investment in Infodrive Software Inc., USA (wholly owned subsidiary) and hence is of the opinion that no provision needs to be provided for as the company is reviving the operations of the US Subsidiary. This position was also clarified in the Directors Report which is reproduced as below:

“In view of revival of operations of Subsidiary, provision for diminution in value of investments as per the requirements of Accounting Standard – 13 (Accounting for Investments) is not considered necessary and hence not made.”

There were certain issues relating to operational management and the matter was under arbitration in the United States and the company is confident of a favorable

resolution to the dispute and will be reviving the operations in the ensuing financial year and restore the client base.

Observations of the interim order:

- F. Para 17 (5) (a): It is observed in the reserves & surplus note (4) point (c) of consolidated financial statements that the closing surplus i.e. 31.03.2015 & opening surplus as at 01.04.2015 are not matching. An amount of Rs.388.89 lacs difference is observed as noted in the table below:

(Rs. in Lacs)

Particulars	FY 2015-16	FY 2014-15	FY 2013-14
a) Share Premium Account	3,866.57	3,866.57	3,866.57
b) Capital Reserve	0.00	0.00	453.63
c) Surplus in P & L Account			
i) Opening	3,978.98	3,245.89	2,796.06
ii) Add: Current year Profit	764.39	344.20	12.68
Total of C (i+ii)	4,743.37	3,590.09	3,262.37
Total (a+b+c)	8,609.94	7,456.66	7,128.93

ISL's Reply:

In the consolidated financial statements there is an adjustment arising out of fluctuation in exchange rates affecting the previous year's figures when the assets and liabilities of the current year drawn up based on the exchange rate prevailing as at the year end. The same is adjusted against the carry forward balances and the reconciliation is tabulated as under:

(Rs. in Lacs)

Particulars	FY 2015-16	FY 2014-15	FY 2013-14
Previous Year's Closing Balance	3,590.09	3,262.37	3,051.72
Adjustment in Foreign Currency Translation	388.89	(16.48)	(255.66)

Particulars	FY 2015-16	FY 2014-15	FY 2013-14
Opening Balance after considering for exchange fluctuation	3,978.98	3,245.89	2,796.06
Add: Profit for the year	764.39	344.20	12.68
Add: Capital Reserve	-	-	453.63
Closing Balance for the year	4,743.37	3,590.09	3,262.37

We state that the differences are only on account of changes in foreign exchange rates affecting the opening balances also.

Observations of the interim order:

- G. Para 17 (5) (b): As per the Consolidated financial statements of FY 2015-16, there is a decrease i.e. repayment of long term borrowings of Rs.166.37 lacs as compared with previous year, however in cash flow statement an amount of Rs.170.75 lacs is shown as a repayment. Thus, a difference of Rs.4.38 lacs is observed.

Long term borrowings as on 31st March, 2016 & 31st March, 2015 are Rs.11,526.20 lacs & Rs.11,692.57 lacs respectively. Further, despite the long term borrowings remains almost same, as per financial statements company has shown only Rs.9.19 lacs as a finance cost in FY 2015-16 as compared to Rs.69.90 lacs in previous year.

ISL's reply

It has been stated that there is a repayment of long term borrowings of Rs.170.75 lakhs as shown in the cash flow statement. It is stated that a sum of Rs.170.75 lakhs comprises of two components namely repayment of term loan of Rs.166.37 lakhs and reversal of deferred tax liabilities of Rs.4.38 lakhs directly in the cash flow statement totaling upto Rs.170.75 lakhs and we state that there is no difference.

For the year ended 31.3.2014 the company had borrowings with Axis bank which were settled during the year 31.3.2015 and there was no liability to Axis Bank as at 31.3.2016. It is stated that this liability was settled during the financial year and the interest is on account of the liability to Axis Bank. The Axis Bank liability does not find a place in the balance sheet as on 31.3.2015 due to the settlement.

Long Term Borrowings of Rs.11526.20 lacs as at 31.3.2016 and Rs.11692.57 lacs as at 31.3.2015 are interest free.

Observations of the interim order:

H. Para 17 (5) (c):

(Rs. in Lacs)

Particulars/Year	FY 2015-16 *	FY 2014-15 *	FY 2013-14 *
Employee Benefit Expenses (Profit & Loss Account)	52.96	70.25	225.03
Provision for Gratuity (Balance Sheet)	1.89	124.71	33.56

(*) figures as per consolidated financial statements

There is a decline in provision of gratuity from Rs.124.71 lacs as on 31st March, 2015 to Rs.1.89 lacs as on 31st March, 2016. From the above table, it can be seen that there is an increase in provision for gratuity by Rs.91.15 lacs in FY 2014-15 whereas the total employee benefit expenses shown in FY 2014-15 was Rs.70.25 lacs.

ISL's reply:

The provisions of Payment of Gratuity Act are applicable only in India. The stand-alone financial statements of M/s. Info-Drive Software Limited, India, shows that the provision made on account of gratuity for the year ended 31st March, 2015 was Rs.6.76 lakhs. A comparison between the Employee benefit expenses and provision for gratuity on the basis of stand-alone financial statements of the company is tabulated as follows:

Particulars	FY 2015-16	FY 2014-15	FY 2013-14
Employee Benefit Expenses	20.26	31.75	47.40
Provision for Gratuity	1.89	6.76	33.56

A sum of Rs.124.71 lakhs arose out of the Malaysian subsidiary which was consolidated for the year ended 31.3.2015 whereas for the year ended 31.3.2016 the financials were not consolidated, consequently the same does not form part of the consolidated financial statements.

Observations of the interim order:

Para 17 (5) (d): As at 31st March, 2016, the Intangible asset i.e. goodwill was shown as Rs. Nil as against of Rs.1,706.41 lacs as at 31st March, 2015. However, the impairment of goodwill was not shown in Profit and Loss account. It is noted that the goodwill was brought into books of accounts in the FY 2014-15. Further, as per notes on consolidated financial statements for the year 31st March, 2016 (page no.95 of annual report, point u), “no impairment has been recognized in view of estimated future cash flows from activities to which goodwill has been allocated.”

ISL’s Reply:

The goodwill of Rs.1706.41 lakhs arose on account of consolidation of Malaysian subsidiary for the year ended 31.3.2015. The financials of the Malaysian subsidiary were not consolidated for the year ended 31.3.2016 and consequently the assets and liabilities and the consequent goodwill on consolidation did not form part of the consolidated financial statements for the year ended 31.3.2016.

Observations of the interim order:

- I. Para 17 (5) (e): The cash flow statement of company stating that an amount of Rs.5,953.99 lacs as investment advance in subsidiary company, however from the following schedule it is noted as follows:

(Rs.in Lacs)

Particulars	FY 2015-16	FY 2014-15	FY 2013-14
Info-drive Software LLC-JV Investment, UAE	5,953.99	6,145.97	0.00
Technoprism LLC, USA	1,042.96	982.37	0.00
Info-Drive technologies Co Ltd, Bangkok	6.62	6.23	6.01
Infodrive Softwarre Sdn Bhd, Malaysia	2,509.35	0.00	0.00
Total	9,512.92	7,134.57	6.01

On analysis of consolidated financial statements for the FY 2015-16, it is observed that the investment in subsidiaries have increased by Rs.2,378.35 lacs i.e. (from Rs.7,134.57 lacs to Rs.9,512.92 lacs). But in the cash flow statement it is being reported that the company had made Rs.5,953.99 lacs as investment in subsidiary companies during FY 2015-16.

ISL's reply:

ISL enclosed a copy of cash flow statement approved by the board and adopted by the shareholders in the annual general meeting.

Observations in the interim order:

- J. Para 17 (5) (f): It is observed from the consolidated financial statements note 6(a) (Long Term Borrowings) that apart from FCCB's, advance for JV, the schedule also includes major item i.e. Corporate borrowings. The corporate borrowings of the company and finance costs reported in profit and loss account for the last 3 years i.e. FY 2015-16, FY 2014-15 & FY 2013-14 are as follows:

Particulars/Year	(Rs. In Lacs)		
	FY 2015-16	FY 2014-15	FY 2013-14
Corporate Borrowings	1,694.08	1,191.94	1,032.60
Finance Costs	9.19	69.90	155.29

From the above table, it is noted that the corporate borrowings have increased by approx.64% from FY 2013-14 to FY 2015-16, whereas the finance costs have declined by approx. 94%. Thus, *prima facie* raises doubt on the authenticity of the borrowings reported in the financial statements.

ISL's Reply:

For the year ended 31.3.2014 the company had borrowings with Axis Bank which were settled during the year ended 31.3.2015 and there was no liability to Axis Bank as at 31.3.2016. It is stated that this liability was settled during the financial year and the interest is on account of the liability to Axis Bank. The other borrowings availed by the company are interest free.

8. Vide the said letter dated October 12, 2017, ISL had also requested for personal hearing in the matter. An opportunity of hearing was provided to ISL on January 10, 2018 and the same was communicated through speed post and email dated November 28, 2017. In response to SEBI's email, ISL vide email dated November 30, 2017 confirmed that its authorized representatives would appear on behalf of ISL. However, ISL vide email dated January 07, 2018 requested for adjournment of personal hearing. Acceding to the said request, the hearing was adjourned to

February 15, 2018, which was subsequently re-scheduled to April 04, 2018 on account of operational exigencies. However, ISL vide email dated April 03, 2018 again requested for adjournment of personal hearing. In this regard, vide email dated April 06, 2018, it was communicated to ISL that considering the fact that reasonable opportunities of personal hearing have already been granted to ISL, adjournment request of ISL cannot be acceded to, but at the same time it was granted liberty to submit additional written submissions, if any, along with supporting documentary evidence(s) by April 20, 2018. In response to above email, ISL vide its email dated April 21, 2018 *inter alia* submitted that “*we are continually able to be engaged in expanding our business and we attaching two agreements that were recently signed with societies. We would like to once again request you that we be given an opportunity for personal hearing to explain various matters raised*”.

9. Acceding to the above request, ISL was granted one more opportunity of personal hearing on May 29, 2018. However, ISL vide email dated May 29, 2018 *inter alia* submitted that “*our representative and Director(s) have to be present before State Government authorities on an emergency matter concerning the company due to Business Development. In view of this, we would request one last time adjournment of the hearing dated on or after 2nd week of June, 2018. We would assure that this will be the final extension and would not seek any further extension and shall comply with your directions*”.
10. The said request of ISL for adjournment was rejected but it was granted 15 days’ time for filing written submissions, if any, from the date of communication by SEBI. The same was communicated to ISL vide email dated June 13, 2018. In response to SEBI’s email, ISL vide its email dated June 27, 2018 *inter alia* submitted that “*we are awaiting some additional work order documentation from external parties and hence is taking little longer. In view of the same we would request you to grant some more time so because we do not have the opportunity of making one final submission*”.
11. ISL vide its email dated June 27, 2018 had requested for more time to file some additional work order documentation. However, no such documents have been received by SEBI from ISL till date.

Consideration of issues

12. In light of the observations of the interim order and the submissions made by ISL, the following issue arises for consideration:

Whether in light of the facts and circumstances of the case, the findings of the interim order and the submissions of the company in response thereto, the directions issued against the company vide the interim order need to be confirmed, revoked or modified in any manner?

13. Considering the above mentioned facts and circumstances and the replies of ISL to the findings of the *interim order*, I observe the following:

Regarding the opinion of auditor on consolidated financial statements

In Annual Report 2015-16 (page no.85), the auditor while expressing his opinion on consolidated financial statements stated that *“I did not audit the financial statements of subsidiary companies Infodrive Software LLC, Dubai, Infodrive Software Mauritius Limited, Mauritius, Infodrive Software Limited, Canada, Infodrive Software Inc, USA and Infodrive Enterprises Pte Ltd (formerly known as Infodrive Software Pte Ltd.) whose financial statements reflect total assets Rs.22,082.71 lakhs as at March 31, 2016, total revenues of Rs.10,187.85 lakhs and cash inflows amounting to Rs.27.65 lakhs for the year ended on that date and also I have not audited the branch at Singapore. These financial statements and other financial information have been incorporated in the consolidated financial statements based on un-audited financial statements as certified by the management of the company as audited financial statements of these entities as at 31st March 2016 were not available.”*

As stated in the Annual Report 2015-16, the consolidated financial statements include the un-audited financial statements of subsidiaries viz. Dubai, Mauritius, Canada, USA and Singapore. Further, from the auditors opinion, it is observed that the un-audited financial statements of aforementioned subsidiaries reflect total assets of Rs.22,082.71 lakhs and total revenues of Rs.10,187.85 lakhs, which accounts for 76.91% of total assets and 81.83% of total revenues respectively, reported in consolidated financial statements for the year 2015-16. From the above, it appears that significant portion of assets and revenues have been included in consolidated financial statements without conducting an audit, which raises suspicion about the genuineness of the figures reported in the Annual Report 2015-16 (total assets and revenue reported in consolidated financial statements in Annual Report 2015-16 was Rs.28,712.64 lakhs & of Rs.12,449.44 lakhs).

In this regard, it is relevant to refer to regulation 33(3)(d) of the LODR Regulations, which reads as under:

33. Financial Results

...

(3) *The listed entity shall submit the financial results in the following manner:*

(d) The listed entity shall submit annual audited standalone financial results for the financial year, within sixty days from the end of the financial year along with the audit report and Statement on Impact of Audit Qualifications applicable only] for audit report with modified opinion:

Provided that if the listed entity has subsidiaries, it shall, while submitting annual audited standalone financial results also submit annual audited consolidated financial results along with the audit report and Statement on Impact of Audit Qualifications applicable only for audit report with modified opinion.

Provided further that, in case of audit reports with unmodified opinion(s), the listed entity shall furnish a declaration to that effect to the Stock Exchange(s) while publishing the annual audited financial results.

As can be seen in the above regulation, a listed company having subsidiaries shall submit annual audited consolidated financial statements. Regarding the audit of its subsidiaries, ISL has submitted that certain jurisdiction outside India do not have provisions of law requiring audit of accounts under the local laws. In absence of any such legal requirement, it is generally the practice of the company to furnish management certified financial statements which are based on books of accounts and other relevant documents. However, it is observed that ISL has failed to specifically justify with relevant laws as prevalent in other jurisdictions w.r.t. the absence of requirement of conducting audit of the financial statements of such subsidiaries/associate.

In this context, it is relevant to refer to ICAI's "Guidance Note on Audit of Consolidated Financial Statements", the relevant part whereof is reproduced below:

"Section 129(4) of the Companies Act, 2013 states that "the provisions of this Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements referred to in sub-section (3)". Besides other matters, the principal auditor of the consolidated financial statements is responsible for expressing an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with the financial reporting framework under which the parent prepares the consolidated financial statements in addition to reporting on the additional matters as required under the Companies Act, 2013 and any other statute to the extent applicable."

I note that in the present case, the Principal Auditor has qualified his opinion by stating that the accounts of the subsidiaries are unaudited and thus, it is not possible to determine whether the provisions as mentioned above are met or not, particularly since the a significant proportion of the assets and revenues (belonging to subsidiaries) appearing in the consolidated financial statement of ISL are unaudited.

Therefore, I am of the view that ISL has not been able to provide sufficient explanation to the observation made in the interim order in this regard and the same needs to be examined by way of forensic audit.

Regarding the loans given to subsidiary companies

I note ISL’s submission that has given interest free advances to wholly owned subsidiaries and not to third parties and since these loans are repayable on demand there is no repayment schedule. Consequently, the auditor has stated the absence of repayment schedule and there is no adverse conclusions as to whether there loans are prima facie prejudicial to the interest of the company.

The figures reported for long term loans & advances and short term loans & advances in standalone financial statements (page no.70) are as follows:

(Rs. in Lacs)

Particulars	As at March 31, 2016	As at March 31, 2015
Long term loans and advances	5,738.63	4,740.12
Short term loans and advances	249.42	656.64

Further, ISL on notes to standalone financial statements (page no.76) disclosed that it has given advances to 5 of its subsidiaries. The details of advances given to the subsidiaries are as follows:

(in Rs.)

Subsidiary Location	As on 31.03.2016 (A)	As on 31.03.2015 (B)	Increase/ (Decrease) (A-B)	Remark
Singapore	30,61,31,363	30,02,91,002	58,40,361	Wholly Owned Subsidiary

Subsidiary Location	As on 31.03.2016 (A)	As on 31.03.2015 (B)	Increase/ (Decrease) (A-B)	Remark
USA	6,49,37,431	6,40,44,075	8,93,356	Wholly Owned Subsidiary
Mauritius	4,81,03,731	4,74,20,664	6,83,067	Wholly Owned Subsidiary
UAE	4,61,22,153	5,34,71,434	-73,49,281	Wholly Owned Subsidiary
Canada	69,463	68,323	1,140	Wholly Owned Subsidiary
Total	46,53,64,141	46,52,95,498	68,643	

From the above table, it can be seen that advance balance of 4 subsidiaries i.e. Singapore, USA, Mauritius & Canada have increased and for UAE subsidiary the advance balance has decreased.

ISL has not provided any documentary evidence such as resolution(s) passed by Board of Directors and/or minutes of the respective meeting(s), terms of loans, bank statements highlighting receipt / payment to the subsidiaries, agreements, etc., for granting the loans to subsidiaries along with its reply. This raises a doubt regarding the genuineness of the loans given to subsidiaries.

Regarding the mismatch in total revenue income disclosed by the company in its annual results (standalone) for the F.Y. 2016-17 and the aggregate results submitted for four quarters

ISL vide corporate announcement dated June 14, 2017 on BSE website has submitted rectified standalone financial results for the quarter and year ended March 31, 2017. The quarterly results submitted by ISL in its reply are matching with the figures available on BSE website, but the Annual Report of ISL for FY 2016-17 is not available on BSE website or on company's website at www.infodrivservices.com. Hence, the correctness of the yearly figures for above mentioned heads can't be ascertained at this stage and requires forensic audit.

Regarding the diminishing of value of investment in the US Subsidiary:

Para 32 of Accounting Standard-13 (revised in 2016) (Accounting for Investment) states that "*Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to*

recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

ISL in its reply submitted that the operations of the US subsidiary were suspended temporarily and the company is confident in reviving the operations in ensuing financial year. Further, the Directors Report in Annual Report 2015-16 (page no.15) has also clarified that “*in view of revival of operations of subsidiary provision for diminution in the value of investments is not considered as per accounting standard-13*”.

However, ISL has failed to furnish any document to support their claim of revival of operations of USA subsidiary. Therefore, on the basis of documents available / submitted by ISL, the submission of ISL in this regard can't be verified and required forensic audit.

Regarding mismatch in closing and opening balance(s) of reserves & surplus

ISL has submitted that mismatch in closing and opening balance(s) of reserves & surplus is due to “*adjustment arising out of fluctuation in exchange rates affecting the previous year's figures when the assets and liabilities of the current year drawn up based on the exchange rate prevailing as at the year end*”.

Para 24 of Accounting Standard -11 (revised in 2003) (The Effects of Changes in Foreign Exchange Rates) states that “*in translating the financial statements of a non-integral Foreign Operation for incorporation in its financial statements, the reporting enterprise should use the following procedures:*

- (a) the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation should be translated at the closing rate;*
- (b) income and expense items of the non-integral foreign operation should be translated at exchange rates at the dates of the transactions; and*
- (c) all resulting exchange differences should be accumulated in a foreign currency translation reserve until the disposal of the net investment.”*

The definition of closing rate as per para 7.2 of Accounting Standard -11 is “*Closing rate is the exchange rate at the balance sheet date.*”

From the submission(s) of ISL, *prima facie*, it appears that ISL has translated the financial statements i.e. assets and liabilities of non-integral foreign operations of subsidiary(ies) at the prevailing rate as at the year end.

As per aforesaid para of accounting standard, all resulting exchange differences should be accumulated in a foreign currency translation reserve until the disposal of the net investment. However, on review of Annual Report 2015-16 available on BSE, it is observed that there is no information available/balance shown with respect to foreign currency translation reserve.

Further, para 40 of aforesaid accounting standard states that “*An enterprise should disclose:*

- (a) the amount of exchange differences included in the net profit or loss for the period; and*
- (b) net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders’ funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.*

As per above para, ISL has to disclose (a) the amount of exchange differences included in the net profit or loss for the period; and (b) net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders’ funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period. *Prima facie*, it appears that ISL has not appropriately disclosed the above adjustment in consolidated financial statements as at 31st March, 2016.

Further, the figures i.e. exchange fluctuation and/or exchange difference on foreign currency translation cash and cash equivalents shown in consolidated cash flow statements for the year ended March 31, 2016 (which is available on BSE website) are not matching with the figures provided in the cash flow statement as submitted by company vide reply dated October 12, 2017.

Thus, the justification provided by ISL does not appear to be in line with the Accounting Standard mentioned above, and is insufficient to clarify the discrepancy highlighted in the interim order in that regard.

Regarding the mismatch in consolidated financial statements and cash flow statement with regard to long term borrowings:

With respect to deviation in the amount shown in cash flow statement against repayment of long term borrowings, the company submitted that Rs.170.75 lakhs comprises of two components viz. repayment of term loan of Rs.166.37 lakhs and reversal of deferred tax liabilities of Rs.4.38 lakhs.

Para 18 of Accounting Standard -3 (Cash flow Statements) states that “*an enterprise should report cash flows from operating activities using either:*

(a) the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Para 20 of aforesaid Accounting Standard states that “*Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:*

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.”

From the financial statements of ISL, it is understood that ISL is preparing the cash flow statement under *indirect method* and as per the accounting standard – 3, net cash flow from operating activities can be adjusted with deferred taxes. From note 7(a) of annual report 2015-16, it is observed that ISL has reported deferred tax liabilities as Rs. Nil as at March 31, 2016 against Rs.4.38 lacs as at March 31, 2015. *Prima facie*, the submission of company appears to be correct. However, as submitted by ISL, it has included the decrease in deferred tax liability with proceeds from long term borrowings under *cash flow from financing activities* instead of showing separately under *cash flow from operating activities*. Thus, the justification provided by ISL does not appear to be in line with the Accounting Standard mentioned above.

With respect to the submissions of ISL on the observation on finance cost, ISL has not provided any documentary evidence to support its submissions.

In light of the above, the explanation submitted by ISL appears to be inadequate and is also not backed by any documentary evidence. The same, therefore, requires to be examined by way of forensic audit.

Regarding the provision for payment of gratuity:

ISL submitted that the payment of Gratuity Act is applicable *only in India*. It is submitted that the provision made for gratuity in standalone financial statement was

Rs.6.76 vis-à-vis Rs.124.71 in lacs shown in consolidated financial statements of FY 2014-15. The gratuity amount of Rs.124.71 shown in FY 2014-15 arose on account of consolidation of financials of Malaysian subsidiary in FY 2014-15. Whereas for the year ended 31.3.2016, the financials of Malaysian subsidiary were not considered for consolidation and consequently the same does not form part of the consolidated financial statements.

From the above, it is observed that ISL on one side is stating that gratuity is applicable only in India and on other side stating that the decrease in provision of gratuity in FY 2015-16 was due to non-consolidation of financial statements of Malaysian subsidiary. Thus, *prima facie*, ISL has made contradictory submissions to the said observation, and therefore, the same needs to be examined by way of a forensic audit.

Regarding the accounting of impairment of goodwill:

As at 31st March, 2016, the Intangible asset i.e. goodwill was shown as Rs. Nil as against of Rs.1,706.41 lacs as at 31st March, 2015. In this regard, ISL had submitted that the goodwill of Rs.1706.41 lakhs arose on account of consolidation of Malaysian subsidiary for the year ended 31.3.2015. The financials of the Malaysian subsidiary were not consolidated for the year ended 31.3.2016 and consequently the assets and liabilities and the consequent goodwill on consolidation did not form part of the consolidated financial statements for the year ended 31.3.2016.

It is mentioned that the Annual Report of ISL for FY 2016-17 is not available on BSE website and on company's website at www.infodriveservices.com. Since, the Annual Report for 2016-17 is not available, the submission of ISL can't be verified at this stage. Further, it has not been justified as to why the consolidation of financials of the Malaysian subsidiary was not done for the FY 2015-16. Therefore, this aspect can only be verified through an audit.

Regarding the mismatch in consolidated financial statement and cash flow statement with respect to investment in subsidiaries:

ISL provided only a copy of cash flow statement and has not made any satisfactory submissions w.r.t the observation raised in interim order. It is also observed that there have been discrepancies between the consolidated cash flow statement for FY 2015-16 submitted by ISL vide its reply dated October 12, 2017 and the consolidated cash flow statement for FY 2015-16 available on public domain i.e. BSE website. Discrepancies in certain items are highlighted below:

Cash flow statement reflected in Annual Report for FY 2015-16 on BSE website is as follows:

Rs. in Lacs

Particulars	2016	2015
Cash flow from operating activities		
Net Profit before taxes	930.59	556.70
<u>Adjustments for</u>		
Depreciation	18.65	30.32
Misc. Expenses written off	14.39	14.38
Interest Income	(19.52)	(8.97)
Other Income	(94.43)	(266.23)
Loss on sale of assets	-	0.59
Interest paid	9.19	69.90
Exchange Fluctuation	(418.16)	39.15
Operating profit before working capital changes	440.71	435.84
Adjustments for increase/ (-) decrease in		
Trade receivables	423.59	(2,725.73)
Loans, advances and other current assets	(387.75)	1,249.72
Short Term Loans & advances	17.01	(6,007.75)
Inventories	85.92	(0.77)
Current Liabilities & Provisions	(1,328.08)	1,687.19
Cash generated from/(used in) operations	(748.60)	(5,361.50)
Adjustment for misc. exp. Written off	(14.39)	(14.38)
Exchange Fluctuation	418.16	(39.15)
Taxes paid/provided	(29.95)	(84.29)
Interest Income	19.52	8.97
Other Income	94.43	266.23
Exchange difference on Foreign currency translation cash and cash equivalents	462.71	829.59
Net cash from operating activities	201.88	(4,394.53)
B. Cash flow from investing activities:		
Investment advance in Subsidiary Company	(5,953.99)	(6,145.95)
Purchase/advance for fixed assets	(6.49)	-
Proceeds from sale/withdrawn of fixed assets	0.14	40.04
Withdrawal of depreciation	(272.34)	(30.31)
Net cash flow from/(used in) investing activities	(6,232.68)	(6,136.22)
C. Cash flow from financing activities:		
Proceeds from issue of capital	660.99	1,081.62
Proceeds from Long term borrowings (Net)	(170.75)	10,658.52
Proceeds from Short term borrowings (Net)	(17.20)	(399.42)
Interest paid	(9.19)	(69.90)
Loss on sale of assets	-	(0.59)
Net cash from financing activities	(197.14)	10,188.61

Rs. in Laacs

Particulars	2016	2015
Net increase/decrease in cash and cash equivalents	(6,227.94)	(342.14)
Cash & Cash equivalents (Opening Balance)	62.78	404.92
Cash & Cash equivalents (Closing Balance)	61.11	62.78
Component of Cash and Cash equivalents		
Cash on hand	0.02	0.85
Balance with Banks		
i. Available with the company for day to day operations	48.37	54.31
ii. Amount available in unclaimed dividend accounts	4.84	7.62
iii. Earmarked bank deposits	12.72	-

For and on behalf of Board

V N Seshagiri Rao
Director
DIN: 00338930

Pramod Manahorial Jain
Director
DIN: 02711188

Ajay K Mehta
Company Secretary
M.No. A3339

A S Giridhar
Manager & Chief Financial Officer
PAN: AFKPG7553D

As per my report of even date
for **K.S.REDDY ASSOCIATES**
Chartered Accountants
FRN 0090135

Place : Chennai
Date : May 30,2016

K. SUBBA REDDY (Proprietor)
M.No.208754



The items/ heads highlighted in the above cash flow statements prima facie show discrepancies in accounting of items such as “investment advance in subsidiary companies”, “Purchase / Advance for fixed assets”, etc. Further, the cash flow statements available on the BSE website and that submitted by ISL with its reply use different nomenclature for various heads. Thus, there is *prima facie* evidence of misrepresentation of financial statements by ISL.

Regarding the doubt in respect of authenticity of the borrowings reported in the financial statements.

It is noted that the corporate borrowings have increased by approx.64% from FY 2013-14 to FY 2015-16, whereas the finance costs have declined by approx. 94%., which prima facie does not appear to be justifiable. In this regard, ISL submitted that for the year ended 31.3.2014 the company had borrowings with Axis Bank which were settled during the year ended 31.3.2015 and there was no liability to Axis Bank as at

31.3.2016. It is stated that this liability was settled during the financial year and the interest is on account of the liability to Axis Bank. The other borrowings availed by the company are interest free. It is observed that ISL did not provide any documentary evidence to support above submissions. In absence of any documentary evidence the submissions of ISL appear to be inadequate and needs to be verified by way of forensic audit.

14. It is noted that subsequent to the interim order, ISL was given opportunities to submit its explanations in respect of the observations made in the interim order. As noted above, in respect of several transactions, ISL has provided insufficient explanation / justification, which is not backed by documentary evidence. In respect of the *prima facie* inconsistencies in the financials of ISL that have been highlighted in the interim order, ISL has submitted that they were errors. It has offered no explanation as to why so many errors (as claimed) had crept in its financials and whether they were *bona fide* errors. It also failed to give any reason as to why the said errors did not come to its notice till the time SEBI highlighted the same. Further, there is also *prima facie* evidence of misrepresentation of cash flow statements as noted earlier. In view of the above, I find that the facts and circumstances of the case as brought out in the *interim order* have not changed, so as to justify the dis-continuation/ modification/ revocation of the directions passed in the interim order against ISL, its promoters and directors.

ORDER

15. In view of the foregoing, I, in exercise of the powers conferred upon me under sections 11, 11(4), 11A and 11B read with section 19 of the Securities and Exchange Board of India Act, 1992 hereby confirm the directions issued against ISL, its promoters and directors vide interim order dated September 13, 2017.
16. Copy of this Order shall be forwarded to the recognized stock exchanges for information and necessary action. A copy of this Order shall also be forwarded to the Ministry of Corporate Affairs and Serious Fraud Investigation Office for their information.

Sd/-

DATE: November 30th, 2018

MADHABI PURI BUCH

PLACE: MUMBAI

WHOLE TIME MEMBER

SECURITIES AND EXCHANGE BOARD OF INDIA