

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

UNDER SECTION 11(4) AND SECTION 11A AND SECTION 11B OF THE SEBI ACT READ WITH REGULATION 11 OF THE SECURITIES AND EXCHANGE BOARD OF INDIA (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKET) REGULATIONS, 2003 READ WITH SECURITIES AND EXCHANGE BOARD OF INDIA (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

IN THE MATTER OF KAVIT INDUSTRIES LIMITED –

	NOTICEES	PAN
1.	KAVIT INDUSTRIES LIMITED	AAACJ4907C
2.	JAYESH RAICHAND BHAI THAKKAR	AAYP7057L
3.	MONISH MALHOTRA	ACGPM6028E
4.	AMIT TARACHAND SHAH	ACRPS5394L
5.	JIGAR MOTTA	ADOPM0296M
6.	CHIRAG THAKKAR	ADVPT4431A
7.	BHAVESH DESAI	AJMPD8376M
8.	NIKHIL BHUT	BDNPB0836J
9.	KALYANI RAJESHIRKE	BMHPR8522A
10.	KIRAN SONI	CDLPS9025D

BACKGROUND –

1. Kavit Industries Limited (“**Kavit Industries/Company**”) (formerly known as Atreya Petrochem Limited) was incorporated on November 23, 1990 and its Registered Office is at Tundao Village, Salvi Vadodara Taluka, Vadodara, Gujarat-391775. The Company is presently engaged in trading of diversified products viz. lubricants, edible oil, agricultural products, garments, shares, solar modules, steel, welding machine, etc. The Company is listed on BSE Limited (“**BSE**”).
2. Securities and Exchange Board of India (“**SEBI**”) was in receipt of a letter dated June 9, 2017 (Letter no. F. No. 03/73/2017-CL-II) from the Ministry of Corporate Affairs (“**MCA**”) containing a request for initiating necessary action against ‘*Shell Companies*’ in accordance with the statutory provisions administered by SEBI. Upon a consideration of the aforementioned, SEBI was of the view that the said Companies were *prima facie* involved in *inter alia* –
 - i. Misrepresentation of their financials in violation of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations, 2015**”);
 - ii. Misutilization of the Books of Accounts/funds of the Company including facilitating accommodation entries to the detriment of minority shareholders thereby reneging on

the fiduciary duty cast on the Board of Directors, controlling shareholders and Key Managerial Personnel.

3. Accordingly, SEBI issued a letter dated August 7, 2017 to BSE Limited (“**BSE**”), National Stock Exchange of India Limited (“**NSE**”) and Metropolitan Stock Exchange of India Limited (“**MSE**”) and advised them to *inter alia* take the following measures –

- (a) *Trading in all such listed securities shall be placed in Stage VI of the Graded Surveillance Measures (“GSM”) with immediate effect. If any listed company out of the aforementioned 331 Companies is identified under any stage of GSM, it shall also be moved to GSM Stage VI directly. Under the Stage VI of GSM, trading in these identified securities shall be permitted once in a month under trade-to-trade category. Further, any upward price movement in these securities shall not be permitted beyond the last traded price and Additional Surveillance Deposit of 200% of trade value shall be collected from the Buyer which shall be retained with the Stock Exchanges for a period of 5 months.*
- (b) *The shares held by the Promoters and Directors in such Companies shall be allowed to be transferred by Depositories only upon verification by the concerned Exchanges and they shall not be allowed to transact in the security except to buy securities in the said listed Company until verification of credentials/fundamentals by the Stock Exchanges is completed.*

4. Vide a Notice dated August 7, 2017, BSE Limited (“**BSE**”) initiated action against the aforementioned Companies in accordance with the directions contained in the SEBI letter dated August 7, 2017, with effect from August 8, 2017. Kavit Industries was one such company.

5. Thereafter, Kavit Industries filed an Appeal before the Hon’ble Securities Appellate Tribunal (“**SAT**”) (*Appeal No. 176 of 2017 – Kavit Industries Limited vs. BSE and SEBI*) against the aforementioned SEBI and BSE letters dated August 7, 2017. Vide an Order dated August 11, 2017, the Hon’ble SAT observed as under –

2. *“... in the case of J. Kumar Infraprojects Limited (Appeal No. 174 of 2017) and by our order dated 10.08.2017 we have stayed direction 1(a) & (b) [As reproduced at paragraph 3(a) and (b) of this Order] contained in the impugned communication of SEBI dated 07.08.2017 qua the appellant therein.*
3. *In view of the facts set out in the Memorandum of Appeal and other documents tendered at the time of hearing relating to annual turnover of the appellant company for last three years, which even according to SEBI prima facie appear to be correct, we extend the said stay to the case of the appellant company herein and direct the stock exchanges to reverse their decision in respect of the appellant company as expeditiously as possible. ...”*

6. Subsequently, SEBI vide an Order dated September 4, 2017 (“**Interim Order**”), while observing that there was *prima facie* evidence of misrepresentation and violation of the LODR Regulations, 2015 including misuse of Books of Accounts/Company funds by Kavit Industries, modified the directions contained in the SEBI letter dated August 7, 2017 and *inter alia* directed as under –
- i. *The trading in securities of Kavit Industries shall be reverted to XT group of BSE with applicable price band in trade-to-trade category.*
 - ii. *Exchange shall appoint an independent auditor to conduct forensic audit of Kavit Industries for verification, including the credentials/financials of Kavit Industries.*
 - iii. *The Promoters and Directors in Kavit Industries are permitted only to buy the securities of Kavit Industries. The shares held by the Promoters and Directors in Kavit Industries shall not be allowed to be transferred for sale, by depositories.*
 - iv. *The other actions envisaged in SEBI’s letter dated August 7, 2017 in para 1(d) as may be applicable, and the consequential action taken by Stock Exchanges shall continue to have effect against Kavit Industries.*
7. Kavit Industries replied to the Interim Order dated September 4, 2017 vide a letter dated September 26, 2017. Upon a consideration of the aforesaid reply, SEBI vide an Order dated February 28, 2018 (“**Confirmatory Order**”) confirmed the directions contained in the Interim Order.
8. Subsequent to the above, Kavit Industries filed an Appeal *before* the Hon’ble SAT (*Appeal No. 126 of 2018 – Kavit Industries Limited and Others vs. SEBI and BSE*), against the Confirmatory Order. The Hon’ble SAT vide an Order dated May 8, 2018, observed –
2. *“Counsel for BSE on instruction states that Report of the Forensic Auditor is expected to be received by BSE on May 11, 2018 and that the BSE would forward the said Report along with its comments to SEBI by May 25, 2018. Statement made by counsel for BSE is accepted. The WTM of SEBI shall then pass an order within 6 weeks thereafter by giving an opportunity of hearing to the appellants.”*

SHOW CAUSE NOTICE DATED JULY 13, 2018 –

9. SEBI issued a Show Cause Notice dated July 13, 2018 (“SCN”) under Section 11(4), Section 11A and Section 11B of the Securities and Exchange Board of India Act, 1992 (“SEBI Act”), against Kavita Industries and its Directors i.e. Noticees no. 1–10 as mentioned at page 1 of this Order, asking them to show cause as to why directions under the aforementioned provisions should not be issued against them for the violations alleged therein. A copy of the Forensic Audit Report was annexed along with the SCN.
10. The SCN *inter alia* states that the observations contained in the Forensic Audit Report (submitted to BSE by the Forensic Auditor, Suresh Chandra and Associates and subsequently forwarded to SEBI on May 25, 2018) for the period from April 2015 to December 31, 2017, were examined and they are as under –
- A. *Misrepresentation of the Accounts/Financial Statements – On account of the following, Kavita Industries was alleged to have misrepresented the Accounts/ Financial statements of the Company and also made wrongful disclosures thereby not providing the true picture of the company’s accounts to the investors.*
- i. *The Company was giving/ accepting Loans & advances without specifying the tenure, interest and purpose which is pre-judicial to the interest of the shareholders. Further, there was no direct business relationship with parties to whom Loans & advances were granted.*
 - ii. *The Company had not disclosed in its Audited Financial statements under the Related Party disclosure, details of the transactions and their outstanding balances as at the year-ending in respect of their related parties although there were transactions and balance outstanding in the books of accounts, which was required under the Companies Act and Accounting Standard 18.*
 - iii. *The Company had made improper recording / grouping of assets / liabilities, non-provisioning of permanent diminution in value of investments in violation of Accounting Standard 13.*
 - iv. *The Company had made improper disclosure of quoted and unquoted investments.*
 - v. *The Company had netted off the Trade Payables having debit balance with credit balance for financial year 2016–2017 thereby understating its Trade Payables by ₹57,02,383 Lakhs.*
 - vi. *The Company had made adjustment of loan against investment without any evidence of transfer of investment or vice versa.*
- B. *Misuse of books of account / funds of the Company –*
- i. *Loans & Advances – The Company had receipts / payment of funds without any legitimate business objective, had indulged in an activity, which was not part of the object clause as set out in the Memorandum of Association and had accepted / extended Loans & Advances to various entities without specifying the terms of repayment and paying / charging any interest.*

- ii. *Sale / Purchase – The Company had reported a turnover of ₹177.93 Crores during 2016–17 as against the total turnover of only ₹33.96 Crores during 2015–16. The sudden spurt in the revenue as well as the trade receivables prima facie leads to suspicion regarding the genuineness of these transactions.*
 - iii. *Further, funds to the tune of ₹14 Crores approx. were routed through the banks for liquidation of loans and advances and simultaneously, creation of loans & advances to the tune of ₹13.64 Crores despite there being no business connection/ transaction with the entities to whom and from whom such amounts were disbursed/ obtained. The aforesaid was in the nature of round tripping of funds.*
- C. *The Directors of the Company (Noticees no. 2 to 10) failed to exercise due diligence by either actively allowing the management to misrepresent the financials and make false disclosure or not setting up systems to generate accurate accounts and make correct disclosures. Further, Noticees no. 2 to 10 failed to discharge their fiduciary responsibility. As Directors, they were responsible for the affairs of Kavit Industries.*

11. Accordingly, the SCN states –

- A. Kavit Industries is alleged to have violated Section 21 of the Securities Contracts (Regulation) Act, 1956 (“**SCRA**”), Sections 12A(a), (b) and (c) of the SEBI Act and Regulation 3(b), (c) and (d) and Regulation 4(1) and 4(2)(f) and (r) of the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 (“**PFUTP Regulation, 2003**”) and Regulations 4(1)(a), (b), (c) and (g), Regulation 33(1)(c) and Regulation 48 of the LODR Regulations, 2015 and Clause 50 of the Listing Agreement.
- B. The Directors of Kavit Industries i.e. Noticees 2–10, are alleged to have violated Section 21 of the SCRA, Sections 12A(a), (b) and (c) of the SEBI Act and Regulation 3(b), (c) and (d) and Regulation 4(1) and 4(2)(f) and (r) of the PFUTP Regulation, 2003 and Regulations 4(1) (a), (b), (c) and (g), Regulation 4(2)(f)(i)(2), Regulation 4(2)(f)(ii)(6) and (7) and Regulations 4(2)(f)(iii)(1),(3),(6) and (12) of the LODR Regulations, 2015.

12. The SCN and hearing notices were delivered to all the Noticees except Noticee no. 5 i.e. Jigar Motta. Accordingly, for the aforementioned Noticee, SEBI effected service of the SCN and hearing notice through paper publication, which was carried out in the Mumbai Edition of The Times of India (English), Maharashtra Times (Marathi) and Navbharat Times (Hindi) on July 20, 2018. Kavit Industries and its Directors, viz. Noticees no. 2, 6, 7 and 9 of the SCN, filed a common reply to the SCN vide letter dated July 27, 2018.

13. During the intervening period, SEBI vide an Order dated July 18, 2018 (“**Revocation Order**”) revoked the directions contained in the Interim Order read with the Confirmatory Order as against the following Promoters of Kavit Industries as no evidence was found to substantiate their role in respect of the *prima facie* findings contained in the Interim Order –

	NAME	PAN
1.	SHREE SAIBABA EXIM PRIVATE LIMITED	AATCS6800N
2.	RAGHUVIR INTERNATIONAL PRIVATE LIMITED	AAGCR6132F
3.	JAYSURYA GASES LIMITED	AAACJ9797N
4.	JAGDISH R THAKKAR	AAVPT9901A
5.	THAKKAR KOKILA H.	AFEPT1146H
6.	HASHMUKHBHAI DHANJIBHAI THAKKAR	ABLPT4221E
7.	HANSABEN JASWANTBHAI THAKKAR	ABKPT5167A
8.	MITUL JAGDISHBHAI THAKKAR	ADJPT6974G
9.	SANTOSH KAHAR	ASVPK7560J
10.	PATEL BHARATBHAI LIMJIBHAI	ALDPP1518Q
11.	SOMABHAI S THAKKAR	AAQPT8887L
12.	JASWANT RAICHAND THAKKAR	AAQPT8875L
13.	ARTIBEN JAYESHBHAI THAKKAR	AAUPT5643E

14. Subsequently, SEBI filed a Miscellaneous Application before the Hon’ble SAT (*Misc. Application No. 186 of 2018 in Appeal No. 126 of 2018 – SEBI vs. Kavit Industries Limited and Others*), which vide an Order dated August 17, 2018, directed SEBI to pass an Order on or before September 27, 2018, as against Kavit Industries and its Directors.

15. An opportunity of personal hearing was granted to Kavit Industries and its Directors on the following dates –

- A. **July 30, 2018** – The hearing was attended by Kavit Industries along with Noticees no. 2, 6, 7 and 9 of the SCN. However, Noticees no. 3, 4, 5, 8 and 10 of the SCN did not attend the hearing. During the course of the hearing, Kavit Industries along with Noticees no. 2, 6, 7 and 9 of the SCN were directed to furnish additional written submissions including providing clarifications/documents regarding the following –

- Whether the loans extended/advanced by the Company i.e. Kavit Industries Limited, as alleged in the SCN, were subsequent to the Company having obtained shareholders’ approval? If so, provide copies of shareholders’ approval.*
- Why were the Company’s profit margins low?*
- Why did the Company extend/advance loans instead of opting for investments?*
- What was the reason for the shift in business of the Company from lubricant oil to edible oil?*
- Who were the members of the Audit Committee during the period for which the Forensic Audit was conducted as referred to in the SCN?*

vi. *A copy of the demat account of Noticee 2 of the SCN i.e. Jayesh Thakkar, covering the last 6 months.*

B. **August 7, 2018** – Another opportunity of personal hearing was granted to Noticees no. 3, 4, 5, 8 and 10 of the SCN. The hearing notices were delivered to all the aforementioned Noticees excluding Noticee no. 5 i.e. Jigar Motta. Accordingly, SEBI effected service of the hearing notice through paper publication, which was carried out in the Mumbai Edition of The Times of India (English), Maharashtra Times (Marathi) and Navbharat Times (Hindi) on August 4, 2018. However, the aforementioned Noticees did not attend the hearing.

16. The information sought at paragraph 15(A) was submitted by Kavit Industries and its Directors, viz. Noticees no. 2, 6, 7 and 9 of the SCN, vide a common reply dated August 3, 2018.

CONSIDERATION OF ISSUES AND FINDINGS –

17. I have considered the Interim Order dated September 4, 2007 along with the Confirmatory Order dated February 28, 2018; the SCN dated July 13, 2018 and the Annexures thereto; the Noticees' reply to the SCN dated July 27, 2018 and additional submissions dated August 3, 2018 along with all the material available on record.

18. I note that Noticees no. 3, 4, 5, 8 and 10 of the SCN viz. Monish Malhotra, Amit Tarachand Shah, Jigar Motta, Nikhil Bhut and Kiran Soni, have not filed any reply to the SCN or made any submission for consideration during the course of these proceedings. Even though they remained *ex parte*, I find it relevant that I should be guided by the documents available on record as laid down by the Hon'ble SAT in its Order dated May 12, 2017 in the matter of *Shri B. Ramalinga Raju vs. SEBI (Appeal No. 286 of 2014)*.

19. **Preliminary Objection** – In their submissions, I note that the Company along with its Directors i.e. Noticees no. 2, 6, 7 and 9 of the SCN, have raised a preliminary objection regarding the jurisdiction of SEBI in respect of the instant proceedings *inter alia* on the ground that the primary role of SEBI is to ensure the protection of investors and the sanctity of the securities market, the same ought not to be enlarged and expanded so as to include a sweeping enquiry into the manner of conduct of business of companies.

20. From the SCN, I note that the allegations against Kavit Industries and its Directors are of a very serious nature *inter alia* including engaging in fraudulent activities thereby adversely affecting investors in the securities market. In this context, I find that any act of

omission/commission by a listed company, which is likely to have an impact on the interests and welfare of investors in the securities market will be subject to SEBI's jurisdiction. I am therefore, of the considered view that SEBI has full jurisdiction to proceed against Kavit Industries and its Directors for determination of the allegations contained in the SCN and further, for issuing directions against them as contemplated therein.

21. Accordingly, for the purpose of the instant proceedings, the issues for consideration are as under –

- A. Whether Kavit Industries violated Section 21 of the SCRA, Sections 12A(a), (b) and (c) of the SEBI Act and Regulation 3(b), (c) and (d) and Regulation 4(1) and 4(2)(f) and (r) of the PFUTP Regulation, 2003 and Regulations 4(1)(a), (b), (c) and (g), Regulation 33(1)(c) and Regulation 48 of the LODR Regulations, 2015 and Clause 50 of the Listing Agreement?**
- B. Whether the Directors of Kavit Industries are liable for the violation of Section 21 of the SCRA by the Company?**
- C. Whether the Directors of Kavit Industries violated Sections 12A(a), (b) and (c) of the SEBI Act and Regulation 3(b), (c) and (d) and Regulation 4(1) and 4(2)(f) and (r) of the PFUTP Regulation, 2003 and Regulations 4(1) (a), (b), (c) and (g), Regulation 4(2)(f)(i)(2), Regulation 4(2)(f)(ii)(6) and (7) and Regulations 4(2)(f)(iii)(1),(3),(6) and (12) of the LODR Regulations, 2015?**

22. The SCN states that Kavit Industries along with its Directors allegedly misrepresented the Company's Accounts/Financial statements and also made wrongful disclosures and as a result, investors were not provided with the true picture of the company's accounts to the investors.

Loans & Advances [Assets] –

23. From the SCN, it is noted that during the Financial Years 2015–16 to 2017–18, the Company had extended a significant amount of unsecured loans and advances to various entities including related parties, details of which are provided as under –

TABLE I – LOANS & ADVANCES [ASSETS]				
	PARTICULARS	F. Y. 2017–18 AMOUNT IN ₹	F. Y. 2016–17 AMOUNT IN ₹	F. Y. 2015–16 AMOUNT IN ₹
A.	LOANS & ADVANCES TO RELATED PARTY	4,96,22,305	1,74,35,696	1,18,14,326
1.	JAYESH R. THAKKAR – ADVANCE	– 48,227	–	– 2044
2.	KAVIT INVESTMENT PVT. LIMITED	63,000	63,000	63,000
3.	KAVIT LOGISTICS	2,50,000	2,50,000	2,50,000
4.	PACIFIC FINSTOCK LIMITED	2,68,09,532	1,96,696	1,87,326
5.	PACIFIC HEALTH INFORMATICS	1,10,34,000	54,12,000	– 2,00,000

6.	SHREENATHJI FINSTOCK PVT. LIMITED	1,15,14,000	1,15,14,000	1,15,14,000
B.	LOANS TO CORPORATES	55,93,29,336	71,04,59,094	73,49,72,394
7.	AATMIK TRADING PVT. LIMITED.	72,00,000	72,00,000	72,00,000
8.	ABIJAH REAL ESTATE PVT. LIMITED.	7,01,00,000	7,01,00,000	7,01,00,000
9.	AB JYONI TRADING PVT. LIMITED	4,60,99,200	7,37,13,200	12,29,38,000
10.	ACACIO TRADE LINK PVT. LIMITED	70,00,000	70,00,000	–
11.	ADILA TRADERS PVT. LIMITED.	6,47,00,000	6,47,00,000	6,23,00,000
12.	AKANSHA MEDIA & ENTERTAINMENT PVT. LIMITED	2,96,00,000	2,96,00,000	2,96,00,000
13.	ALISH TRADERS PVT. LIMITED	11,00,000	11,00,000	–
14.	ARISTO MEDIA & ENTERTAINMENT PVT. LIMITED	1,50,00,000	1,50,00,000	1,50,00,000
15.	ASBN COMMODITIES & FINESERVE PVT. LIMITED	47,00,000	47,00,000	40,00,000
16.	ATLANTIC CREDIT CORP LIMITED	92,32,814	92,32,814	92,32,814
17.	BLACK HORSE MEDIA & ENTERTAINMENT PVT. LIMITED	75,00,000	75,00,000	75,00,000
18.	C & K REALTORS PRIVATE LIMITED	11,23,000	11,23,000	11,23,000
19.	CONTENT INFRASTRUCTURE PVT. LIMITED	4,26,17,771	34,000	–
20.	DIZZY STONE TRADERS	8,00,000	8,00,000	50,00,000
21.	FARHANA INFRA PVT. LIMITED	40,00,000	40,00,000	40,00,000
22.	GAJPAL BUILD INFRA PVT. LIMITED	2,50,00,000	2,50,00,000	1,00,00,000
23.	GUJARAT CREDIT CORP. LIMITED	10,00,000	10,00,000	10,00,000
24.	HARITIMA INFRASTRUCTURE PVT. LIMITED	7,50,000	10,50,000	–
25.	INDO AMERICAN CREDIT CORP. LIMITED	20,22,801	20,22,801	20,22,801
26.	INDO AMERICAN OPTICS LIMITED	75,779	75,779	75,779
27.	JIHAN MERCANTILE PVT. LIMITED	4,86,00,000	8,00,00,000	8,00,00,000
28.	KPR INDUSTRIES INDIA LIMITED	–	12,97,00,000	12,97,00,000
29.	KPR UNIVERSAL HOLDING PVT. LIMITED	26,45,471	1,77,00,000	1,77,00,000
30.	LONGSEAL MACHINERY PVT. LIMITED	77,00,000	77,00,000	77,00,000
31.	MAHIR MERCANTILE PVT. LIMITED	5,00,000	5,00,000	–
32.	ORANGE MIST PRODUCTION PVT. LIMITED	–	1,42,00,000	1,09,00,000
33.	PADMANABH INFRASTATE PVT. LIMITED	2,00,00,000	2,00,00,000	2,00,00,000
34.	PERCUTANEOUS SOLUTIONS PVT. LIMITED	37,50,000	37,50,000	–
35.	SAILYREAL	10,00,000	10,00,000	–
36.	SARTHI TRADING	3,43,45,000	–	–
37.	YANTRA NATURAL RESOURCES LIMITED [ERSTWHILE SHREE GANESH SPINNERS LIMITED]	-17,90,000	1,05,00,000	1,05,00,000
38.	SIORS DEVELOPERS PVT. LIMITED	2,00,00,000	2,00,00,000	2,00,00,000
39.	SUHASIT STAR TRADING PVT. LIMITED	7,08,80,000	7,08,80,000	7,93,80,000
40.	SUNAYANA INVESTMENTS CO. LIMITED	25,27,500	27,500	–
41.	WHITETEXT INFRASTRUCTURE PVT. LIMITED	95,50,000	95,50,000	80,00,000
C.	LOAN TO CORPORATES – RELATED PARTY [SUBSIDIARIES AND GROUP COMPANIES]	4,49,26,272	24,690	–
42.	KAVIT EDIBLE OIL LIMITED	43,56,272	24,690	–
43.	KAVIT INFOLINE PVT. LIMITED	9,90,000	–	–
44.	KAVIT INFRA PROJECT PVT. LIMITED	1,53,50,000	–	–
45.	KAVIT SWACHH ORGANIC FOOD PVT. LIMITED	1,46,60,500	–	–
46.	SAUVER FINVEST MUTUAL BENEFITS LIMITED	95,69,500	–	–
D.	LOAN TO OTHERS	1,13,81,000	95,91,000	13,31,000
47.	CHETANBHAI – LABOUR CONTRACTOR	–	10,000	–
48.	NIRAV BACHUBHAI THAKKAR	25,00,000	25,00,000	–
49.	NIRBHAY PROPERTIES – PF	10,00,000	10,00,000	–
50.	N. S. ENTERPRISE	47,50,000	47,50,000	–
51.	VIJAY TUKARAM CHILE – MUIVIBAI	13,31,000	13,31,000	13,31,000
52.	VISHAL BACHUBHAI THAKKAR	10,00,000	–	–
53.	ZUBER TRADING LLP	8,00,000	–	–

24. It is also observed that during the aforementioned period, few of the companies to whom KavIt Industries had extended loans/advances, had not made any filings on the MCA website i.e. *MCA21 Portal*, including those that were under the status of '*Strike Off*' –

TABLE II – DETAILS OF LOANS AND ADVANCES TO COMPANIES			
	NAME OF COMPANIES	AMOUNT OUTSTANDING AS ON 31.3.2017 [IN ₹]	REMARKS
1.	SHREENATHJI FINSTOCK LIMITED	11514000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹100000 ONLY AND NO RECORDS ARE APPEARING ON MCA PORTAL, HENCE RECOVERABILITY CANNOT BE COMMENTED UPON.
2.	ARISTO MEDIA & ENTERTAINMENT PVT. LIMITED	15000000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹3313500 ONLY AND NO RECORDS ARE APPEARING ON MCA PORTAL, HENCE RECOVERABILITY CANNOT BE COMMENTED UPON. MOREOVER, THE STATUS OF THE COMPANY AS PER MCA PORTAL SHOW AS ' STRIKE OFF '.
3.	ABIJAH REAL ESTATE PVT. LIMITED	70100000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹5049500 ONLY AND THE COMPANY HAS NOT FILED ITS REQUISITE FORMS ON MCA PORTAL AFTER 31.3.2013 ONWARD, HENCE RECOVERABILITY CANNOT BE COMMENTED UPON.
4.	ASBN COMMODITIES PVT. LIMITED	4700000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹100000 ONLY AND NO RECORDS ARE APPEARING ON MCA PORTAL, HENCE RECOVERABILITY CANNOT BE COMMENTED UPON. MOREOVER, THE STATUS OF THE COMPANY AS PER MCA PORTAL SHOW AS ' STRIKE OFF '.
5.	JIHAN MERCANTILE PVT. LIMITED	8000000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹100000 ONLY AND THE COMPANY HAS NOT FILED ITS REQUISITE FORMS ON MCA PORTAL AFTER 31.3.2012 ONWARD. HOWEVER, DURING THE CURRENT YEAR ₹31400000/- RECOVERED.
6.	ORANGE MIST PRODUCTION PVT. LIMITED	14200000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹5595500 ONLY AND THE COMPANY HAS NOT FILED ITS REQUISITE FORMS ON MCA PORTAL AFTER 31.3.2016 ONWARD, HOWEVER, DURING THE CURRENT YEAR AMOUNT HAS BEEN RECOVERED FULLY.
7.	SUHASIT STAR TRADING PVT. LIMITED	70880000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹100000 ONLY AND NO RECORDS ARE APPEARING ON <i>MCA21 PORTAL</i> , HENCE CREDITWORTHINESS AND RECOVERABILITY CANNOT BE COMMENTED UPON. MOREOVER, THE STATUS OF THE COMPANY AS PER MCA PORTAL SHOW AS ' STRIKE OFF '.
8.	WHITETEXT INFRASTRUCTURE PVT. LIMITED	9550000	AS PER MCA PORTAL IT HAS BEEN VERIFIED THAT PAID UP CAPITAL OF THE COMPANY IS ₹1081000 ONLY AND NO RECORDS ARE APPEARING ON MCA PORTAL, HENCE CREDITWORTHINESS AND RECOVERABILITY CANNOT BE COMMENTED UPON. MOREOVER, THE STATUS OF THE COMPANY AS PER MCA PORTAL SHOW AS ' STRIKE OFF '.

25. **Submissions made by the Noticees** – Noticees no. 1, 2, 6, 7 and 9 of the SCN have *inter alia* submitted that as a general business practice, excess funds not required immediately by the Company for its business activity, were deployed. Further, the Company is actively following up for recovering the balance amounts as well as amounts from others together with interest thereon. Loans to the parties in year 2013–14 or 2014–15, were given when all the companies at Table II were in '*Active*' mode as per MCA portal. At the time when the Company had given loan, it could not have visualized that certain companies would be '*Struck off*' from MCA portal. The Noticees have also made item–wise submissions as under –

NOTICEES REPLY TO TABLE I – LOANS & ADVANCES [ASSETS]		
	PARTICULARS	LOANS ADVANCED IN THE F. Y. 2017–18, 2016–17 AND 2015–16
A. LOANS & ADVANCES TO RELATED PARTY		
1.	JAYESH R. THAKKAR – ADVANCE	IT IS A REIMBURSEMENT ACCOUNT MAINTAINED FOR COMPANY'S EXPENSES INCURRED BY THE MANAGING DIRECTOR AND AS GENERAL BUSINESS PRACTICE, ALL SUCH ACCOUNTS ARE RECONCILED ON PERIODIC BASIS I.E. MONTHLY OR QUARTERLY AND ACCORDINGLY, BOOKED IN BOOKS OF ACCOUNTS.
2.	KAVIT INVESTMENT PVT. LIMITED	KAVIT INDUSTRIES HAD TAKEN ₹65.13 LAKHS IN 2009–10 OUT OF WHICH KAVIT INDUSTRIES HAS PAID ₹65.76 LAKHS IN 2010–11 SO EXCESS PAYMENT OF ₹0.63 LAKHS IS OUTSTANDING SINCE 2010–11. THIS IS NOT AN INTERRELATED GROUP COMPANY TRANSACTION. FURTHER, THE EXCESS PAYMENT MADE TO THE STATED PARTY WOULD BE RECOVERED IN DUE COURSE ALONG WITH INTEREST THEREON.
3.	KAVIT LOGISTICS	KAVIT LOGISTICS IS THE PROPRIETARY CONCERN OF JAYESH THAKKAR. KAVIT INDUSTRIES HAD TAKEN ₹150000 FROM KAVIT LOGISTICS AND PAID ₹400000 IN FINANCIAL YEAR 2013–14 RESULTING IN EXCESS PAYMENT OF ₹250000 WHICH WAS ON ACCOUNT OF ADVANCE DUE TO LUBRICATING TRANSPORT PAYMENT. PAYMENT IS RECOVERED FROM JAYESH THAKKAR ACCOUNT IN FIRST QUARTER OF F. Y. 2018–19.
4.	PACIFIC FINSTOCK LIMITED	KAVIT INDUSTRIES PAID ₹3.98 CRORE AND RECEIVED ₹3.11 CRORE FROM THE PARTY. OUTSTANDING IS ONLY ₹0.87 CRORES WHICH WILL BE RECOVERED IN DUE COURSE. THIS IS ALSO GROUP COMPANY SO THIS IS JUST INTERRELATED GROUP TRANSACTION.
5.	PACIFIC HEALTH INFORMATICS	LOAN GIVEN TO THE STATED COMPANY WOULD BE RECOVERED IN DUE COURSE. THIS IS ALSO GROUP COMPANY SO THIS IS JUST INTERRELATED GROUP TRANSACTION
6.	SHREENATHJI FINSTOCK PVT. LIMITED	COMPANY HAS GIVEN AMOUNT OF ₹11514000 IN YEAR 2010–11 TOWARDS LOAN. THIS IS NOT A GROUP COMPANY. THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY. MERELY BECAUSE PAID UP CAPITAL IS ONLY ₹100000 AND NO RECORDS ARE AVAILABLE IN MCA PORTAL, DOES NOT MEAN THAT LOAN IS UNRECOVERABLE.
B. LOANS TO CORPORATES		
7.	AATMIK TRADING PVT. LIMITED.	LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IN BEING UNDERTAKEN WITH THE STATED PARTY.
8.	ABIJAH REAL ESTATE PVT. LIMITED	DURING 2018–19, AN AMOUNT OF ₹1.57 CRORES IS ALREADY RECOVERED FROM THE STATED PARTY AND THE CURRENT BALANCE OF THE STATED PARTY IS ₹5.43 CRORES WHICH KAVIT INDUSTRIES IS IN THE PROCESS OF RECOVERING.
9.	AB JYONI TRADING PVT. LIMITED	COMPANY RECOVERED ₹61.20 LAKHS TILL DATE. BAL. AMT. OF ₹3.80 CRORES WILL BE RECOVERED IN DUE COURSE. FURTHER THE NEGOTIATION OF INTEREST ON THE SAID LOAN IS ALSO BEING UNDERTAKEN.
10.	ACACIO TRADE LINK PVT. LIMITED	AMOUNT FULLY RECOVERED.
11.	ADILA TRADERS PVT. LIMITED.	AMT. OF ₹1.50 CRORES RECOVERED. BALANCE AMT. OF ₹4.96 CRORES WILL BE RECOVERED IN DUE COURSE.
12.	AKANSHA MEDIA & ENTERTAINMENT PVT. LIMITED	THAT IN RESPECT OF THE ALLEGATION THAT THE COMPANY IS IN STRIKE-OFF STAGE AS PER ROC RECORDS IT IS CLARIFIED THAT THE SAID COMPANY HAS INFORMED US THAT IT HAS FILED A PETITION BEFORE NCLT AGAINST THE STRIKING OFF ORDER. FURTHER, THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IN BEING UNDERTAKEN WITH THE STATED PARTY.
13.	ALISH TRADERS PVT. LIMITED	
14.	ARISTO MEDIA & ENTERTAINMENT PVT. LIMITED	WHEN LOAN WAS GIVEN IN 2013–14 AT THAT TIME COMPANY WAS ACTIVE AND NOT IN STRIKE OFF MODE. THAT IN RESPECT OF THE ALLEGATION THAT THE COMPANY IS IN STRIKE-OFF STAGE AS PER ROC RECORDS IT IS CLARIFIED THAT THE SAID COMPANY HAS INFORMED US THAT IT HAS FILED A PETITION BEFORE NCLT AGAINST THE STRIKING OFF ORDER. FURTHER, THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
15.	ASBN COMMODITIES & FINESERVE PVT. LIMITED	
16.	ATLANTIC CREDIT CORP LIMITED	NO REPLY.

17.	BLACK HORSE MEDIA & ENTERTAINMENT PVT. LIMITED	LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
18.	C & K REALTORS PRIVATE LIMITED	
19.	CONTENT INFRASTRUCTURE PVT. LIMITED	
20.	DIZZY STONE TRADERS	
21.	FARHANA INFRA PVT. LIMITED	
22.	GAJPAL BUILD INFRA PVT. LIMITED	DURING 2018–19, AN AMOUNT OF ₹2.21 CRORES IS ALREADY RECOVERED FROM THE STATED PARTY AND THE CURRENT BALANCE OF THE STATED PARTY IS ₹0.28 CRORES. FURTHER, WE ARE IN THE PROCESS OF RECOVERING THE BALANCE AMOUNT AS WELL AND THE NEGOTIATION OF INTEREST ON THE SAID LOAN IS ALSO BEING UNDERTAKEN.
23.	GUJARAT CREDIT CORP. LIMITED	LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
24.	HARITIMA INFRASTRUCTURE PVT. LIMITED	AMOUNT OF ₹7.50 LAKHS RECOVERED IN JUNE 2018. NEGOTIATION OF INTEREST ON THE SAID LOAN IS ALSO BEING UNDERTAKEN.
25.	INDO AMERICAN CREDIT CORP. LIMITED	LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
26.	INDO AMERICAN OPTICS LTD	
27.	JIHAN MERCANTILE PVT. LIMITED	LOAN WAS GIVEN IN 2013–14. KAVIT INDUSTRIES HAS RECOVERED ₹6.97 CRORES OUT OF ₹8 CRORES, SO REMAINING AMOUNT IS ₹1.02 CRORES. WE ARE IN THE PROCESS OF RECOVERING THE BALANCE AMOUNT AS WELL AND THE NEGOTIATION OF INTEREST ON THE SAID LOAN IS ALSO BEING UNDERTAKEN
28.	KPR INDUSTRIES INDIA LIMITED	AS WE HAVE ALREADY PROVIDED THE COPY OF CONSENT LETTER TO FORENSIC AUDITOR THAT KPR INDUSTRIES (INDIA) LIMITED AND KPR UNIVERSAL HOLDING PVT. LIMITED ARE GROUP COMPANIES AND COMPANY HAS GIVEN CONSENT LETTER TO TRANSFER THE SAME IN KPR UNIVERSAL HOLDING PVT. LIMITED SO WE HAVE TRANSFERRED THE WHOLE AMOUNT. DOCUMENT FOR THE SAME IS ANNEXED HEREWITH.
29.	KPR UNIVERSAL HOLDING PVT. LIMITED	WE HAVE RECOVERED ₹14.47 CRORES OUT OF ₹14.74 CRORES THE CURRENT BALANCE OF THE STATED PARTY AS ON DATE IS ONLY ₹0.26 CRORES. FURTHER, WE ARE IN THE PROCESS OF RECOVERING THE BALANCE AMOUNT AS WELL AND THE NEGOTIATION OF INTEREST ON THE SAID LOAN IS ALSO BEING UNDERTAKEN.
30.	LONGSEAL MACHINERY PVT. LIMITED	WE HAVE RECOVERED OF ₹20 LAKHS IN 2018–19, OUT OF ₹77 LAKHS SO OUTSTANDING IS ₹57 LAKHS. WE ARE IN THE PROCESS OF RECOVERING THE BALANCE AMOUNT AS WELL AND THE NEGOTIATION OF INTEREST ON THE SAID LOAN IS ALSO BEING UNDERTAKEN.
31.	MAHIR MERCANTILE PVT. LIMITED	DURING 2018–19, THE OUTSTANDING AMOUNT IS ALREADY RECOVERED FROM THE STATED PARTY AND THE CURRENT BALANCE OF THE STATED PARTY IS NIL.
32.	ORANGE MIST PRODUCTION PVT. LIMITED	WE HAVE RECOVERED TOTAL AMOUNT FROM PARTY IN 2017–18.
33.	PADMANABH INFRASTATE PVT. LIMITED	LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
34.	PERCUTANEOUS SOLUTIONS PVT. LIMITED	
35.	SAILYREAL	
36.	SARTHI TRADING	
37.	YANTRA NATURAL RESOURCES LIMITED [ERSTWHILE SHREE GANESH SPINNERS LIMITED]	WE HAVE RECOVERED FULL AMOUNT INCLUDING INTEREST OF ₹0.10 CRORES.

38.	SIORS DEVELOPERS PVT. LIMITED	LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
39.	SUHASIT STAR TRADING PVT. LIMITED	WHEN LOAN WAS GIVEN IN 2013–14 AT THAT TIME COMPANY WAS ACTIVE AND NOT IN STRIKE OFF MODE. THAT IN RESPECT OF THE ALLEGATION THAT THE COMPANY IS IN STRIKE-OFF STAGE AS PER ROC RECORDS IT IS CLARIFIED THAT THE SAID COMPANY HAS INFORMED US THAT IT HAS FILED A PETITION BEFORE NCLT AGAINST THE STRIKING OFF ORDER. FURTHER, THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
40.	SUNAYANA INVESTMENTS CO. LIMITED	WE HAVE RECOVERED ₹20 LAKHS OUT OF ₹25.27 LAKHS BAL. AMT. IS ₹5.27 LAKHS. THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
41.	WHITETEXT INFRASTRUCTURE PVT. LIMITED	THAT IN RESPECT OF THE ALLEGATION THAT THE COMPANY IS IN STRIKE-OFF STAGE AS PER ROC RECORDS IT IS CLARIFIED THAT THE SAID COMPANY HAS INFORMED US THAT IT HAS FILED A PETITION BEFORE NCLT AGAINST THE STRIKING OFF ORDER. FURTHER, THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY
C. LOAN TO CORPORATES – RELATED PARTY [SUBSIDIARIES AND GROUP COMPANIES]		
42.	KAVIT EDIBLE OIL LIMITED	IT IS SUBSIDIARY COMPANY OF KAVIT INDUSTRIES AND WE HAVE GIVEN LOAN DUE TO BUSINESS DEVELOPMENT IN NEW PROJECT AND WE WOULD BE RECOVER THE AMOUNT IN DUE COURSE.
43.	KAVIT INFOLINE PVT. LIMITED	
44.	KAVIT INFRA PROJECT PVT. LIMITED	
45.	KAVIT SWACHH ORGANIC FOOD PVT. LIMITED	
46.	SAUVER FINVEST MUTUAL BENEFITS LIMITED	IT IS A GROUP COMPANY OF KAVIT INDUSTRIES AND WE HAVE GIVEN LOAN DUE TO BUSINESS DEVELOPMENT AND WE WOULD BE RECOVER THE AMOUNT IN DUE COURSE.
D. LOAN TO OTHERS		
47.	CHETANBHAI – LABOUR CONTRACTOR	AMOUNT RECOVERED.
48.	NIRAV BACHUBHAI THAKKAR	AMOUNT GIVEN IN 2016–17. COMPANY IS FOLLOWING UP WITH PARTY. FURTHER, THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH 9% INTEREST THEREUPON ALONG WITH TDS.
49.	NIRBHAY PROPERTIES – PF	LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH INTEREST THEREUPON AND THE NEGOTIATION OF RATE OF INTEREST IS BEING UNDERTAKEN WITH THE STATED PARTY.
50.	N. S. ENTERPRISE	
51.	VIJAY TUKARAM CHILE – MUIVIBAI	
52.	VISHAL BACHUBHAI THAKKAR	AMOUNT GIVEN IN 2017–18. COMPANY IS FOLLOWING UP WITH PARTY. FURTHER, THE LOAN GIVEN TO THE STATED PARTY WOULD BE RECOVERED BY THE END OF THIS QUARTER ALONG WITH 9% INTEREST THEREUPON ALONG WITH TDS.
53.	ZUBER TRADING LLP	RECOVERED IN 2017–18.

26. **Findings** – From the observations contained in the Forensic Audit Report, it is observed that most of the loans and advances extended by Kavit Industries were static in terms of the amount and there was no movement at all since prior to April 1, 2015. Further, it is observed that repayments in loans and advances were also not regular on account of either the repayment or interest terms not being clearly spelt out in the Loan Agreements or the complete absence of Loan Agreements. It is also observed that the Company had not specified the purpose for which such loans and advances were extended. Further, the

Company had not been able to substantiate the existence of a direct business relationship with the entities to whom loans and advances were granted.

27. I have perused the submissions made by the Noticees along with the Annexures thereto. I note that as regards the loans and advances extended by Kavit Industries, the Noticees have submitted that the Company has recovered such amounts from most of the entities at Table I and where the amounts were still outstanding, the Company was in the process of recovering the same. In this context, I note that the Noticees have only submitted Ledger Account statements as evidence of recovery of loan amounts. In the absence of actual bank account statements, which would corroborate the recovery of loan amounts by the Company, I am unable to determine the veracity of the submissions made by the Noticees. I also note from the Confirmatory Order that even during the said proceedings, the Company had failed to submit bank account statements in support of its contentions and chose to rely on the Ledger Account statements. Despite this specific remark in the Confirmatory Order regarding the non-availability of bank statements, the Noticees have not furnished the same even at this final stage of consideration of the matter. Likewise, the Noticees have not furnished any underlying agreements for the loan transactions. In the absence of such documents, it is not possible to ascertain the purpose of the loans, repayment terms and other covenants associated with the loans.
28. Without prejudice to the foregoing, from the submissions made by the Noticees, it is observed that as on July 30, 2018 (date of receipt of reply to the SCN), the Company has fully recovered loans and advances from only eight of the aforementioned entities, viz. entities at Sr. no. 3, 10, 24, 31, 32, 37, 47 and 53 of Table I. Where such amounts have been recovered, it is observed that the Company has undertaken negotiation of interest on the loan amount as against only the entity at Sr. no. 24 i.e. Haritima Infrastructure Private Limited. The Company has however, charged and recovered interest from Yantra Natural Resources Limited [erstwhile Shree Ganesh Spinners Limited]. This clearly indicates that the Company has extended interest-free loans to six of the aforementioned eight entities. Further, in the case of Yantra Natural Resources Limited, the Noticees have not offered any explanation as to how the amount stated to have been levied as interest has been arrived at by the Company.
29. Incidentally, it is noted from the Ledger Account statement provided by the Company that as regards the loans recovered from entities at Sr. no. 10, 24, 32 and 37, the amounts received by the Company were more than the outstanding loan amounts and the Company had transferred such amounts immediately back to the aforementioned entities, all such transactions occurring within a time span of 2–4 months. As stated earlier, the Company has not recovered interest from entities at Sr. no. 10 and 32 i.e. Acacio Trade Lint Pvt. Limited and Orange Mist Production Pvt. Limited. It is indeed surprising that despite the receipt of funds in excess of the loan amounts shown as outstanding, the Company has failed to recover

interest or undertake negotiation of interest with the aforementioned entities. Further, the Company has not offered any explanation in these proceedings as to why it has not recovered interest in respect of the loans extended to entities at Sr. no. 10, 24 and 32 of Table I.

30. As regards Yantra Natural Resources Limited, it is noted that in its reply dated September 2, 2017 (paragraph 16 of the Interim Order), the Company stated that the loan was given at the specific request and friendly guarantee given by some common business friend with no interest charged. Further, vide a reply dated September 26, 2017 (paragraph 8 of the Confirmatory Order), the Company stated that the loan extended to Yantra Natural Resources Limited had been classified under *Loans & Advances* in the Balance Sheet from the Financial Year 2010–11 and was still outstanding as on that date. It is also noted from the aforesaid reply of the Company that it had initiated recovery proceedings against Yantra Natural Resources Limited and had recovered ₹82.50 Lakhs out of ₹1.05 Crores. The first instalment of ₹10 Lakhs was received on September 14, 2017 i.e. subsequent to the Interim Order and thereafter, the Company has recovered the full amount including interest. It is reiterated that in these proceedings, the Noticees have only submitted the Ledger Account statements without supporting bank account statements, to establish recovery of such amounts by the Company. Further, the levy of interest on the aforesaid loan appears to be an afterthought by the Company in view of the specific queries raised by SEBI during the proceedings for the Interim Order and Confirmatory Order regarding the failure by the Company to recover the loan amounts advanced to Yantra Natural Resources Limited, which were outstanding for more than seven years.
31. Further, from the submissions made by the Noticees, it is observed that as on July 30, 2018 (date of receipt of reply to the SCN), the Company has partially recovered loans and advances from ten of the aforementioned entities, viz. entities at Sr. no. 2, 4, 8, 9, 11, 22, 27, 29, 30 and 40 of Table I. Even where such amounts have been partially recovered, it is observed that the Company had undertaken negotiation of interest on the loan amount with seven of them i.e. entities at Sr. no. 2, 9, 22, 27, 29, 30 and 40. From the Noticees' admission that interest negotiations had been undertaken with only seven out of the aforementioned ten, it can be inferred that the loans extended to the remaining three entities i.e. entities at Sr. no. 4, 8 and 11, were interest free.
32. From the submissions made by the Noticees, it is also observed that the Company is yet to recover the outstanding amounts from at least thirty three entities, viz. entities at Sr. no. 5–7, 12–21, 23, 25, 26, 33–36, 38, 39, 41–46, 48–52 of Table I. The Company has merely stated that the loan amounts will be recovered by the end of the present Quarter i.e. September 30, 2018. The Company has undertaken negotiation of interest on the loan amount as against only the entities at Sr. no. 6–7, 12–15, 17–21, 23, 25, 26, 33–36, 38, 39, 41 and 48–52. From the

aforementioned, it can be inferred that the Company has extended interest-free loans to seven (including six related parties) of the aforementioned thirty three entities.

33. It is also pertinent to note that the aforementioned thirty three entities also include the companies who had not made any filings on the MCA website i.e. *MCA21 Portal*, including those who were under the status of '*Strike Off*' – Table II of page 10. For example, in the case of the entity at Sr. no. 39 of Table I i.e. Suhasit Star Trading Pvt. Limited, it is observed from the *MCA21 Portal* that the company was incorporated on January 12, 2011 with an authorized share capital of 1 Lakh and a paid up capital of ₹1 Lakh. During the Financial Year 2013–14, Kavit Industries had extended a loan of ₹8.01 Crores to the aforesaid company and the loan amount outstanding as on July 30, 2018 was ₹7.08 Crores. The aforesaid indicates that Kavit Industries had neither considered the creditworthiness of the aforementioned company prior to extending such loans nor made efforts to ensure immediate recovery of the loan amounts from such inoperative/defunct company.
34. The Noticees have submitted that interest on the loans and advances extended by the Company has been charged from the entity at Sr. no. 19 of Table I i.e. Content Infrastructure Pvt. Limited. However, even in such case where the Company has stated that interest is being charged, it is observed that although the amount outstanding as interest receivable has been recorded as a journal entry in the Ledger Account statement as on July 2, 2017, the Company has submitted that it is currently undertaking negotiation of the rate of interest with the said entity.

Loans & Advances [Liability] –

35. From the Forensic Audit Report, it is also noted that during the Financial Years 2015–16 to 2017–18, the Company had availed unsecured loans and advances from various entities including related parties, details of which are provided as under –

TABLE IV – LOANS & ADVANCES [LIABILITY]				
PARTICULARS	UNSECURED LOANS			
	OPENING BALANCE			CLOSING BALANCE AS ON 31.12.17
	AS ON 1.04.15	AS ON 1.04.16	AS ON 1.04.17	
INTER CORPORATE UNSECURED LOAN	3,20,39,703	20,09,959	4,81,73,261	8,74,00,713
LOAN FROM CORPORATES	2,53,75,850	2,28,75,850	3,38,52,362	6,12,81,824
AALYYA TRADERS PVT. LTD	1,94,00,000	2,04,00,000	2,04,00,000	1,03,55,000
ADAMINA TRADERS PVT. LTD	–	–	5,00,000	–
AMEND MULTI TRADE PVT. LTD	–	–	–	3,79,74,462
GALAV FINANCE & INVT PVT. LTD	43,000	43,000	43,000	43,000
OFFERLINK INFRAPROJECTS PVT. LTD	5,00,000	5,00,000	5,00,000	5,00,000
ROHO REAL ESTATE PVT. LTD	–	–	2,00,000	2,00,000
SHINING SUN POWER PVT. LIMITED	–	1,49,00,000	1,00,00,000	1,00,00,000
SHUCHI MERCANTILES PVT. LTD	50,00,000	15,00,000	15,00,000	15,00,000
WESTLITE INFRAPROJECTS PVT. LTD	–	–	2,50,000	2,50,000
ZILLION PHARMACHEM LIMITED	4,32,850	4,32,850	4,59,362	4,59,362
LOAN FROM CORPORATES – RELATED PARTY [SUBSIDIARIES AND GROUP COMPANIES]	66,63,853	-2,08,65,891	1,43,20,899	2,61,18,889
PRABHAV INDUSTRIES LTD	51,89,774	59,87,329	66,96,829	1,84,94,829
KAVIT GREEN ENERGY PVT. LIMITED - UNSECURED LOAN	-10,00,000	-2,93,27,300	51,49,990	51,49,990
N. A. CORPORATION PVT. LTD	–	–	–	-10
NATURAL EXPO AGRO INDS LIMITED	21,34,080	21,34,080	21,34,080	21,34,080
PACIFIC SECURITIES LIMITED	3,40,000	3,40,000	3,40,000	3,40,000
LOANS FROM NON-CORPORATES	5,39,587	15,39,587	40,39,587	40,39,587
ADARSH ASSOCIATES	4,99,587	4,99,587	4,99,587	4,99,587
CHIRAG NARENDRA MODH	–	10,00,000	10,00,000	10,00,000
PRAKASH OIL	–	–	25,00,000	25,00,000
ROYAL TRADING CO.	40,000	40,000	40,000	40,000
SHREE MANNA TRADING CO.	–	3,54,35,500	–	–
GRAND TOTAL	3,25,79,290	3,89,85,046	5,22,12,848	9,14,40,300

36. **Submissions made by the Noticees** – The Noticees have not made any submissions regarding the aforementioned.

37. **Findings** – From the observations contained in the Forensic Audit Report, it is noted that the Company had availed loans on account payment (unsecured loans) without executing any Loan Agreement and without any defined *Obligation Schedule* for interest and repayment. Further, there was no consistency in terms of repayment by Kavit Industries in respect of the said loans. It is also noted that as regards some of the unsecured loans availed by the Company, the amount has remained as outstanding since prior to April 1, 2014, without any reduction. Further, the Company had not made any provision for interest payable in respect of the said outstanding loans. Thus, the aforementioned may not be genuine business related transactions. Further, the very fact that the Company had availed of loans from other companies contradicts with its own submissions that it made advances to other companies because it had excess funds.

A. S. 13: Related Party Relationship and Related Party Transactions disclosures –

38. It is noted from the SCN and Forensic Audit Report that Kavit Industries had failed to disclose the following related parties in its Audited Financial Statements –

TABLE V – RELATED PARTY RELATIONSHIP			
	NAME OF THE RELATED PARTY	WHETHER DISCLOSED IN THE ANNUAL REPORT	
		F. Y. 2016–17	F. Y. 2015–16
1.	KAVIT SWACHH ORGANIC FOOD PVT. LIMITED	NO	NO
2.	KAVIT INFRA PROJECT PVT. LIMITED	NO	NO
3.	RAGHUVIR INTERNATIONAL PVT. LIMITED	NO	NO
4.	SAUVER FINVEST MUTUAL BENEFITS LIMITED	NO	NO
5.	KAVIT INFOLINE PVT. LIMITED	NO	NO
6.	G-TECH INFO-TRAINING LIMITED	NO	NO
7.	SHREE SAIBABA EXIM PVT. LIMITED	YES	NO
8.	KAVIT INVESTMENTS PVT. LIMITED	NO	YES
9.	EMPIRE HOUSING FINANCE LIMITED	NO	YES
10.	PACIFIC SECURITIES LIMITED	NO	YES
11.	ARTIBEN THAKKAR	NO	YES

39. It is also noted from the SCN and Forensic Audit Report that Kavit Industries had failed to disclose the following details of related party transactions including outstanding balances during the period from April 1, 2015 to December 31, 2017, as reproduced from the Forensic Audit Report –

TRANSACTIONS WITH THE RELATED PARTIES DURING TITER PERIOD 01.04.2015 TO 31.12.2017

ANNEXURE - 1

ANNEXURE - 1

		Transactions during the year											Closing balance as at the end of the year					
Name of the Related Party	Year	Loans & Advances (Asset)		Interest earned	Loans-LIABILITY		Interest paid	Investment Made	Director Rem.	Purchase of Material	Sale of material	Sale of Investment	Exp. Paid on behalf of co.	Loans & Advances (Asset)	Unsecured Loan (liability)	Investment made	Sundry Debtors	Sundry Creditors
		DISBURSED	RECEIVED		AVAILED	REPAID												
Prabhkar Industries Ltd.	2015-16				62,10,000	54,12,444									24,87,741			
	2016-17				10,37,000	3,27,500									31,97,241			
	2017-18				2,04,98,000	33,00,000									2,03,95,240			
Shining Sun Power Pvt. Ltd.	2015-16																	
	2016-17				1,49,00,000							49,00,000			1,00,00,000			
	2017-18														1,00,00,000			
Jayesh Thakkar	2015-16	1,21,48,083	67,72,000											-2044				
	2016-17	1,28,57,043	1,28,55,001											3,50,000				
	2017-18	50,94,643	41,45,000						7,75,000					5,24,643				
Natural Expo Agro Industries Ltd.	2015-16														21,34,080			
	2016-17														21,34,080			
	2017-18														21,34,080			
Kavit Green Energy Pvt. Ltd.	2015-16				10,00,000	2,93,27,300		58,60,000							-2,93,27,300	99,99,900		
	2016-17				3,59,90,450	15,13,160		650				49,00,000			51,00,550	51,00,550		
	2017-18				10,00,000	10,00,000									51,49,990	51,00,550		
Kavit Infra Project Private Limited	2015-16																	
	2016-17													-				
	2017-18	1,89,35,000	39,85,000					80,000						1,49,50,000		80,000		
Saurer Finvest Mutual Benefits Limited	2015-16																	
	2016-17																	
	2017-18	1,50,82,000	55,12,500											95,69,500				
Kavit Infoline Private Limited	2015-16																	
	2016-17																	
	2017-18	10,60,000	70,000					70,000						9,90,000		70,000		
Kavit Intermediate (division)	2015-16	14,55,000												1,11,97,914				
	2016-17													1,11,97,914				
	2017-18													1,11,97,914				
Kavit Investments Pvt. Ltd.	2015-16													63,000				
	2016-17													63,000				
	2017-18													63,000				
Pacific Securities Ltd.	2015-16														3,40,000			
	2016-17														3,40,000			
	2017-18														3,40,000			
Artiben Thakkar	2015-16																	
	2016-17							100										
	2017-18	20,00,000	21,64,000											-1,64,000				
Kavit Edible Oil Pvt. Ltd.	2015-16																	
	2016-17	24,690												24,690				
	2017-18	62,45,494	42,50,112							66,07,390	35,66,371			20,20,072			35,66,371	66,07,390
Kavit Swatch Organic Food Pvt. Ltd.	2015-16																	
	2016-17																	
	2017-18	1,77,55,500	60,95,000					60,000						1,16,60,500		60,000		

40. **Submissions made by the Noticees** – Noticees no. 1, 2, 6, 7 and 9 of the SCN have *inter alia* submitted that in the Audited Financial Statement of Annual Report for Financial Year 2016–17, in page no 75 in para(s) of Notes on financial statement, Auditor has mentioned Related Party Disclosure in table form in which they have mentioned list of related parties with whom company has made transaction in current period. In the Annual Report which was published, the Company has shown particulars of holding, subsidiary and associate companies and in para II of IV, the Company has mentioned shareholding of Promoter Groups which shows related parties list. The Company has therefore not hidden any details from public. The Company has complied with the requirement of A. S. 18 relating to Related Party disclosure.
41. **Findings** – I note that A. S. 18–*Related Party Disclosures*, which is applicable to the financial statements of each reporting enterprise establishes the requirement for the disclosure of (a) related party relationships; and (b) transactions between a reporting enterprise and its related parties separately. Without related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's length basis between independent parties. Therefore, it is imperative that a Company ensures disclosures of such related party relationships and transactions. From the submissions made by the Noticees, it is observed that during the Financial Year 2016–17, the Company had only made partial and inadequate disclosures in respect of related party relationship and related party transactions. I note that apart from the aforesaid information which pertains only for the period 2016–17, the Company has not adduced any evidence to repudiate the charge contained in the SCN that it failed to disclose related party relationship and related party transactions. I therefore, find that the Company had failed to ensure compliance with A. S. 18.

A. S. 18: Accounting for investments – Improper disclosures of Quoted and Unquoted Investments and Non-provisioning of permanent diminution in value of investments –

42. From the SCN and Forensic Audit Report, it is noted that Kavit Industries had made improper disclosures of quoted and unquoted investments including non-provisioning of permanent diminution in value of investments as under –

(a) The year wise movement of investments are provided as under –

TABLE VI – QUOTED AND UNQUOTED INVESTMENTS					
	PARTICULARS	F. Y. 2017–18 AMT. IN ₹	F. Y. 2016–17 AMT. IN ₹	F. Y. 2015–16 AMT. IN ₹	F. Y. 2014–15 AMT. IN ₹
A.	INVESTMENT – QUOTED	50,48,544	50,48,544	50,48,544	40,62,730
1.	ADHAAR VENTURES INDIA LIMITED	40,62,730	40,62,730	40,62,730	40,62,730
2.	BLISS GVS PHARMA LIMITED	9,85,814	9,85,814	9,85,814	–
B.	INVESTMENT – UNQUOTED	57,37,550	51,27,550	100,26,900	314,39,900
1.	SHARE APPLICATION MONEY	–	–	–	273,00,000
2.	KAVIT GREEN ENERGY PVT. LIMITED	51,00,550	51,00,550	99,99,900	41,39,900
3.	OMKAR POWERTECH INDIA PVT. LIMITED	27,000	27,000	27,000	–
4.	KAVIT EDIBLE OIL LIMITED	4,00,000	–	–	–
5.	KAVIT INFOLINE PVT. LIMITED	70,000	–	–	–
6.	KAVIT INFRA PROJECT PVT. LIMITED	80,000	–	–	–
7.	KAVIT SWACHH ORGANIC FOOD PVT. LIMITED	60,000	–	–	–
C.	GRAND TOTAL	107,86,094	101,76,094	150,75,444	355,02,630

43. **Submissions made by the Noticees** – Noticees no. 1, 2, 6, 7 and 9 of the SCN have *inter alia* submitted that the provision for diminution in value of investment is required when the diminution is permanent in nature. The company had already provided for permanent diminution in value of investment in second quarter of financial year 2017–2018 when in opinion of the management, such investment having the diminution in value is permanent in nature, hence the company has fully complied with requirement of A. S. 13. Further, the Company has submitted that it has accepted permanent diminution in value of investment of ₹50.48 Lakhs in Aadhar Venture India Limited from 2013–14 when it was purchased from open market and made required provision for diminution in value of such investment during the Financial Year 2017–18 to the extent of ₹50.20 Lakhs.

44. **Findings** – As per A. S. 13, which deals with accounting for investments in the financial statements of enterprises and related disclosure requirements, a Company has to disclose in its financial statements the aggregate amount of quoted and unquoted investments under

separate heads (including the aggregate market value of quoted investments). A perusal of the Annual Report for the Financial Year 2016–17 revealed that the Company had made improper and misleading disclosures of its investments since it had not disclosed separately investment in quoted shares (including the market valuation of such investment i.e. actual share value) but instead had shown its entire investment of ₹101.76 Lakhs (*Investment – Quoted & Unquoted*) under the head '*Other Non-Current Trade Investments in Unquoted shares*'.

45. From the Books of Accounts, it is observed that the Company was holding investment/shares to the tune of ₹40.62 Lakhs prior to 2014 in Adhaar Venture India Limited, which were purchased during 2009–10 when the price of the scrip was ₹26.29. From the BSE website, it was observed that the market price of the shares of Adhaar Venture India Limited during the period under Audit was only 59 paise per share and the value/price diminution is permanent in nature, but no provision had been made for such diminution in the Books of Accounts. I note that as per A. S. 13, investments classified as long term investments should be carried in the financial statements at cost since the aforesaid investment was not a current investment in accordance with the aforementioned accounting standards. 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. Therefore, the Company had failed to comply with A. S. 13 relating to Accounting for Investment.
46. In addition, I note from Annexure 46 of the Noticees' reply i.e. Ledger Account statement for purchase of shares in Aadhar Venture India Limited, that the Company had accepted permanent diminution on the investment of ₹50.48 Lakhs stated to be investment in shares of Aadhar Venture India Limited through a journal entry whereas as per the Forensic Audit Report, the actual amount of investment in the aforesaid Company was ₹40.62 Lakhs, which was made in 2009–10. Further, from the said Report it is noted that the Company had additionally capitalized an amount of ₹9.85 Lakhs on account of purchase of 7300 shares of Bliss GVS Pharma on March 10, 2016, resulting in the total investment in quoted shares being ₹50.48 Lakhs. Therefore, the aforementioned Ledger Account statement as submitted by the Noticees cannot be relied upon for determining the veracity of their submissions.
47. Incidentally, the Company vide its Annual Report for the Financial Years 2009–10 and 2010–11 has represented that it has made investments in Adhaar Venture India Limited [erstwhile Prraneta Industries Limited] to the extent of ₹98.84 Lakhs for the Financial Year 2009–10 and ₹40.62 Lakhs for the Financial Year 2010–11. From the Interim Order, it is observed that SEBI vide letter dated August 16, 2017, had sought information from the Company regarding whether there were any other transactions made where Adhaar Venture India Limited was directly or indirectly involved during the period from April 1, 2009 to March 31,

2013. However, in its reply dated August 21, 2017, Kavit Industries had failed to inform SEBI of the aforementioned investments made by it in Adhaar Venture India Limited. Further, from the Confirmatory Order, it is observed that vide a reply dated September 26, 2017, Kavit Industries while reiterating that it had no business dealing with Adhaar Venture India Limited had not denied that it had purchased the shares of the said Company.

Netting off of Trade Payables having debit balances with credit balance –

48. From the SCN and the Forensic Audit Report, it is observed that the Company had netted off Trade Payables having debit balance with credit balance for Financial Year 2016–2017 thereby resulting in the Company understating its Trade Payables by ₹57.02 Lakhs.
49. **Submissions made by the Noticees** – Noticees no. 1, 2, 6, 7 and 9 of the SCN have *inter alia* submitted that suppliers were categorised as Sundry Creditors and shown as such in the financial statements. In certain cases, payments have been made to such suppliers, towards supplies made by them, or by way of advances. In the absence of any bill raised by such suppliers, naturally, there would be debit balance against the names of such Sundry Creditors. Merely because, such sundry creditors having debit balances are grouped along with other sundry creditors, does not mean that company has netted off debit balances with trade payables. Considering facts and material of the items it could not be concluded that this could ever amount to understatement of the trade payables.
50. **Findings** – Upon a consideration of the abovementioned submissions made by the Noticees, I am inclined to drop the allegation as contained in the SCN that the Company had understated its Trade Payables by netting off debit balance with credit balance, without any adverse inference.

Misuse of Company's funds –

51. The SCN states that Kavit Industries along with its Directors allegedly misused the funds of the Company.
52. From the SCN along with the Forensic Audit Report, it is noted that Kavit Industries is presently engaged in trading of diversified products such as edible oil, agriculture products, etc. However, it is also observed that the Company is involved in providing and accepting loans and advances on a regular basis and as per information provided to the Forensic Auditor appointed by BSE, as on December 31, 2017, as against the total net owned funds of ₹66.83 Crores (*Share Capital + Reserve + Surplus*), the level of loans and advances was ₹76.78 Crores,

which showed that the Company's funds have been utilized for activity other than its main object of business.

53. **Submissions made by the Noticees** – I note that during the hearing, the Company was asked to offer its response on why loans and advances were extended to other companies when the funds could have been used for investments in its own business. Noticees no. 1, 2, 6, 7 and 9 of the SCN have *inter alia* submitted that in the Financial Years 2014–15 and 2015–16, the Company appointed a financial consultant to handle the investment department and give ideas to management for investment that would benefit the Company. So, whenever the Company had excess funds available, the financial consultant suggested investment in companies that would give better returns in future so company had given loans on the basis of suggestion given by him. However, funds were wrongly withheld by some companies.
54. **Findings** – I am unable to accept the explanation given by the Company. It is surprising that the Company had not undertaken any due diligence in respect of the borrower entity before loans were extended including recoverability of such amounts. Further, although the Company has submitted that such loans were extended with the expectation of better returns, the repayment of such amounts were not regular on account of either the repayment/interest terms not being clearly spelt out in the Loan Agreements or the complete absence of Loan Agreements. Further, while the Company has stated that it has made recovery of the amounts extended as loans/advances, it has only submitted ledger account statements which in the absence of any corroborative bank statements, does not indicate actual receipts of funds. It is also noted that such amounts wherever recovered have been recovered by the Company mostly without interest and only after the issuance of the Interim Order.

Cash Flow Entries – Sale/Purchases –

55. As per the Audited Annual Accounts of Kavit Industries, it is observed that the cash flows from various activities during the Financial Years 2016–17 and 2017–18 were as under –

TABLE VII		
PARTICULARS / FOR THE YEAR ENDED FOR THE YEAR ENDED	MARCH 31, 2017 IN ₹	MARCH 31, 2016 IN ₹
(A) CASH FLOW FROM OPERATING ACTIVITIES		
NET PROFIT BEFORE TAX	1,33,35,057	26,40,326
ADJUSTMENTS TO RECONCILE PROFIT BEFORE TAX TO NET CASH FLOWS:		
DEPRECIATION AND AMORTIZATION EXPENSE	7,67,072	8,16,715
OTHER NON-OPERATING INCOME (INCL. WRITTEN - OFF)	– 15,89,869	42,57,183
INTEREST EXPENSE	1,32,473	4,49,608
PRELIMINARY EXPENSES WRITE OFF	7,50,191	1,24,087
INCOME TAX PROVISION	41,44,290	10,32,084
DIVIDEND INCOME		-2,925

OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	92,50,634	-12,61,456
MOVEMENT IN WORKING CAPITAL:		
INCREASE/ (DECREASE) IN INVENTORIES	- 35,62,271	23,25,411
INCREASE/(DECREASE) IN TRADE RECEIVABLES AND OTHER RECEIVABLE	- 1,17,25,58,458	20,38,35,491
INCREASE/(DECREASE) IN TRADE PAYABLE AND OTHER PAYABLES	1,11,19,20,291	32,26,15,374
INCREASE/(DECREASE) IN OTHER CURRENT LIABILITY	1,67,52,547	73,36,733
INCREASE/(DECREASE) IN PROVISIONS	41,12,616	5,95,536
CASH GENERATED FROM OPERATION	3,40,84,641	10,84,51,819
DIRECT TAX PAID (NET OF REFUNDS) - -		
NET CASH INFLOW FROM/ (OUTFLOW) FROM OPERATING ACTIVITIES (A)	3,40,84,641	10,84,51,819
(B) CASH FLOW FROM INVESTING ACTIVITIES		
PURCHASE OF FIXED ASSETS	- 9,57,707	- 13,62,075
PURCHASE OF INVESTMENTS	48,99,350	2,04,27,286
INTEREST RECEIVED	15,89,869	42,57,183
DIVIDEND RECEIVED		- 2,925
NET CASH INFLOW FROM/ (OUTFLOW) FROM FINANCING ACTIVITIES (B)	55,31,512	2,33,25,318
(C) CASH FLOW FROM FINANCIAL ACTIVITIES		
PROCEEDS / REPAYMENT FROM LONG TERM LIABILITY(NET)		- (4913600)
PROCEEDS FROM LONG TERM BORROWING	- 3,29,08,988	3,68,35,500
PROCEEDS/ REPAYMENT FROM LOANS AND ADVANCES (NET)	5,32,98,847	- 15,37,49,101
INTEREST PAID	- 1,32,473	- 4,49,608
PROCEEDS OF SHARE APPLICATION MONEY/SHARE CAPITAL -		- 4,43,944
NET CASH INFLOW FROM/ (OUTFLOW) FROM FINANCING ACTIVITIES (C)	2,02,57,386	- 12,27,20,752
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	- 82,95,743	90,56,385

56. From the abovementioned Table, Kavit Industries reported a turnover of ₹177.93 crores during the Financial Year 2016–17 as against the total turnover of ₹33.96 Crores only during the Financial Year 2015–16 i.e. an increase of ₹144 Crores. It is also observed that the achievement of turnover of ₹177.93 Crores during 2016–17 was a result of steep increase in debtors/creditors and was without any actual movement of cash or through bank accounts. Further, it is observed that besides Trade Receivables and Trade Payables, there was no other element which resulted in major cash flow movement from 2016 to 2017.

57. The following is noted regarding the commodity-wise revenue generated by the Company –

- a. **Edible Oil** – The Company reported a trading sale of ₹118.98 Crores in 2016–17 as against trading sales of ₹0.17 Crores in 2015–16. The Company has made two-way deals of purchase and sales with the following entities –

TABLE VIII			
NAME	DURING 2016–17 [WITHOUT VAT]		REMARKS
	PURCHASES IN ₹	SALES IN ₹	PRODUCT
GOKUL AGRO RESOURCES LIMITED.	23,64,73,848	4,30,31,916	EDIBLE OILS SALES 4%
MAA OIL MILLS	26,57,25,988	7,40,58,373	EDIBLE OILS SALES 4%
PANTHRAJ REFINERY	51,77,31,304	8,41,21,800	EDIBLE OILS SALES 4%
	–	13,96,30,864	EDIBLE OIL HIGH SEAS
PARTH COMMODITIES SERVICES PVT. LIMITED.	4,29,57,978	9,22,01,438	EDIBLE OILS –SALES 4%

However, in most such cases of two-way deals of purchase and sales, the payments/receipts were not through the banking channel but rather through adjustments between debtors and creditors, details of which are provided below –

TABLE IX				
NAME	PAYMENTS		OUTSTANDING AS ON 31.03.2017	
	RECEIVED	MADE	DEBTORS	CREDITORS
GOKUL AGRO RESOURCES LIMITED.		39,27,141		1993,14,893
MAA OIL MILLS		23,63,392		2766,48,904
PANTHRAJ REFINERY	1246,81,666	105,15,000	5331,02,887	1032,77,090
PARTH COMMODITIES SERVICES PVT. LIMITED.			517,05,631	

- b. **High Seas sale of Crude Degummed Soya Bean Oil** – The Company reported sales of ₹34.06 Crores in 2016–17 as against Nil sales in 2015–16 through two-way deals of purchase and sales with certain entities. Most of the sales made by the Company were either on loss or without any profit/loss.

TABLE X									
PURCHASE					SALES				
DATE	PARTICULARS	QTY.	RATE	VALUE	DATE	PARTICULARS	QTY.	RATE	VALUE
10.10.16	GURDAS AGRA PVT. LIMITED	500	53,824	269,12,181	10.10.16	PANTHRAJ REFINERY *	500	53,824	269,12,181
21.10.16	SHREE SAI SAGAR OIL REFINERY	1,250	50,877	635,96,610	22.10.16	PANTHRAJ REFINERY *	1,250	50,877	635,96,610
1.11.16	SAVEMAX WHOLESALE CLUB PVT. LIMITED	1,000	47,227	472,27,000	25.11.16	PANTHRAJ REFINERY *	250	47,227	118,06,750
1.11.16	GRYFISN COMMODITIES	250	49,687	124,21,823	26.11.16	PANTHRAJ REFINERY *	250	49,687	124,21,823
1.11.16	SAVEMAX WHOLESALE CLUB PVT. LIMITED	500	49,787	248,93,500	27.11.16	PANTHRAJ REFINERY *	500	49,787	248,93,500
19.01.17	UNITED VENTURE	125	55,783	69,72,875	20.01.17	ABHINANDAN GLOBAL MARKETING	250	52,484	131,20,988
23.01.17	AJANTA SOYA LIMITED *	500	58,632	293,15,940	23.01.17	JAI TRADERS *	500	55,653	278,26,615
25.01.17	MKU LIMITED *	250	58,771	146,92,735	25.01.17	JAI TRADERS *	250	54,909	137,27,133
31.01.17	AGARWAL OIL REFINERY *	500	60,523	302,61,345	31.01.17	MENTOR OIL PRODUCTS PVT. LIMITED *	250	58,525	146,31,333
* AS ON 31.03.2017, THE PAYMENTS WERE YET TO BE MADE/RECEIVED FOR BOTH THE LEGS OF TRANSACTIONS.									

- c. **OGS exempted Sales** – The Company reported sales of ₹2.63 Crores in 2016–17 as against ₹28.06 Crores sales in 2015–16. The entire sale of solar module has been made to M/s. Grandma Trading and Agencies Limited (“**Grandma Trading**”) situated at Secunderabad by purchasing the material from M/s. Kasukruthi Sujata Constructions Pvt. Limited (“**Kasukruthi Sujata Constructions**”), which is situated at Hyderabad. A scrutiny of the Balance Sheet of Grandma Trading (as obtained from the BSE website) reveals that the total operating revenue of the company during 2015–16 was only ₹26.29 Lakhs which substantially increased to ₹375.67 Lakhs during 2016–17. Moreover, Kasukruthi Sujata Constructions from whom the material was purchased is not active and had not filed any returns with the ROC as per information available on the *MCA21 Portal*.

- d. **Sale of Cattle Feed** – The Company reported sales of ₹19.64 Crores in 2016–17 as against *Nil* sales in 2015–16. Details of sale purchase undertaken during 2015–16 are provided as under –

TABLE XI – SALE OF CATTLE FEED			
SALES		PURCHASE	
BUYER	AMT. IN ₹ [WITHOUT VAT]	SELLER	AMT. IN ₹ [WITHOUT VAT]
ARYA TRADING CO	15,75,91,570	NEHA INTERNATIONAL LIMITED.	5,06,23,030
GRANDMA TRADING & AGENCIES LIMITED	3,88,11,435	OASIS NEUTRACEUTICALS LIMITED	3,68,21,105
		SHAILIJA COMMERCIAL TRADE LIMITED	10,11,09,830
TOTAL	19,64,03,005	TOTAL	18,85,53,965

- e. **Sale of Castor Seeds** – During the Financial Year 2017–18, Kavit Industries purchased 1505000 Kg of castor seeds from Sun Retail Pvt. Limited at ₹7.20 Crores and then sold them to Kanel Industries Limited for ₹7.22 Crores. As noted from the aforementioned, the margin earned on purchase sale was too low as compared to the total sales made.
- f. **Sale of Toor Dal** – The Company through two-way deals of purchase and sales, had purchased 10,32,250 Tons of Toor Dal from Truevalue Agro Ventures Pvt. Limited at ₹99 per kg and sold the same to M/s Shine Agrotechnology Private Limited at ₹100 per kg throughout the year with absolutely no change in selling price. Most of the sales made by the Company were without any profit/loss.

58. **Submissions made by the Noticees** – Noticees no. 1, 2, 6, 7 and 9 of the SCN have *inter alia* submitted as under –

- a. Mere increase in turnover cannot be considered as suspicious having regard to the nature of the business and the transactions in question. Further, meagerness of the margin cannot lead to any conclusion that the transactions were not genuine.
- b. **Edible Oil** – The Company made profit by purchasing oil from big refineries and selling the same to small trading house companies with minimum profit margin. In this type of contract the Company was just taking small margin amount and selling the same to small trading agencies in same District. This type of arrangement benefited the company for bulk purchase order from the parties. Every direct transaction resulted in profit to the company.
- c. **High Seas sales** – Transactions were looked after by Nikhil Bhut, a Director who has since resigned from the Company. Since he was responsible for clearance of high seas transaction payments and receipts, we were not in direct contact with the concerned parties at that time. Panthraj Refinery, Maa Oil Mills, Janak Oil Mill, Nath Oil Mills

are the parties that were directly interacting with him and have not cleared their outstanding receipts and payment, we have been diligently following up with Nikhil Bhut but due to personal reason he did not respond. Now we have established direct contact with the concerned parties and other outstanding debtors who were handled by Nikhil Bhut and are hopeful of making recoveries.

- d. *OGS Exempted Sales* – Mere non-filing of requisite form or delay in filing of form on *MCA21 Portal* cannot lead to the conclusion that transaction with said party is not genuine. Further, as regards Grandma Trading, the turnover of ₹375.67 Lakhs itself shows that the company has taken purchase in their books of account, which, in turn establishes the genuineness of the business transaction.
- e. *Sale of Cattle Feed* – Being direct sale transaction, company books order from one party (Consignee) and gives order to second party (Consignor) for purchase and gives instruction to second party (Consignor) to send material to first party (Consignee) directly justifying the transaction even though profit margin is minimum. Even at the time of forensic audit, Kavit Industries had arranged lorry receipts copy from First party (Consignee) for the audit purpose. So the genuineness of these transactions is established beyond doubt.
- f. *Sale of Castor Seeds* – We have sold at minimum profit margin due to cut throat competition in edible oil market.

59. **Findings** – I have perused the documents submitted by the Company to substantiate its point-wise submissions in these proceedings as regards sales/purchases undertaken by it. I note that although the Company had recorded numerous sales/purchases during 2016–17, in almost all such transactions, the Noticees have not adduced any documentary evidence in support of the underlying transactions such as sales' invoices, delivery receipts, bank statements, legally enforceable agreements, etc. I also note that in several transactions, the Company had made two-way deals with the same parties. Most of the aforementioned transactions were not routed through banking channels but were adjusted between debtors and creditors through book entries and were in some cases, without a justifiable credit period. It is reiterated that Kavit Industries reported a turnover of ₹177.53 crores during the Financial Year 2016–17 as against the total turnover of ₹33.96 Crores only during the Financial Year 2015–16. In this context, I note that such business transactions reflected as trade payables and trade receivables in the Audited Annual Accounts of the Company during the Financial Year 2016–17, do not appear genuine in the absence of related documentary evidence.

60. Kavit Industries had routed funds amounting to ₹14 Crores through various banks for liquidation of loans and advances and simultaneously, created loans and advances to the tune of ₹13.64 Crores despite there being no business transactions/connections. The

aforementioned transactions routed through the bank accounts were simply round tripping of funds, details of which are provided as under –

TABLE XII			
PARTICULARS	INFLOW [AMT. IN ₹]	PARTICULARS	OUTFLOW [AMT. IN ₹]
LOANS & ADVANCES – RELATED PARTY	1,25,92,000	LOANS & ADVANCES – RELATED PARTY	1,97,60,273
		LOANS TO DIRECTORS AND RELATIVES	3,76,773
ARTIBEN J. THAKKAR	19,21,000	ARTIBEN J. THAKKAR	20,00,000
PACIFIC FINSTOCK LIMITED	80,21,000	PACIFIC FINSTOCK LIMITED	89,31,500
PACIFIC HEALTH INFORMATICS	26,50,000	PACIFIC HEALTH INFORMATICS	84,52,000
LOANS TO CORPORATES	10,45,54,030	LOANS TO CORPORATES	8,65,28,000
–		CONTENT INFRASTRUCTURE PVT. LIMITED	4,20,48,000
ORANGE MIST PRODUCTION PVT. LIMITED	1,75,00,000	ORANGE MIST PRODUCTION PVT. LIMITED	27,85,000
SARTHI TRADING	16,50,000	SARTHI TRADING	3,59,95,000
SHINE COMMOALES LLP	32,00,000	SHINE COMMOALES LLP	32,00,000
–		SUNAYANA INVESTMENT CO. LIMITED	25,00,000
YANTRA NATURAL RESOURCES LIMITED [ERSTWHILE SHREE GANESH SPINNERS LIMITED]	1,22,90,000	–	
AB JYONI TRADING PVT. LIMITED	2,76,14,000	–	
HARITIMA INFRASTRUCTURE PVT. LIMITED	3,00,000	–	
KPR UNIVERSAL HOLDING PVT. LIMITED	4,20,00,030	–	
LOANS TO CORPORATES – RELATED PARTY	1,92,65,760	LOANS TO CORPORATES – RELATED PARTY	5,60,48,513
KAVIT EDIBLE OIL LIMITED	38,13,260	KAVIT EDIBLE OIL LIMITED	32,16,013
		KAVIT INFOLINE PVT. LIMITED	10,60,000
KAVIT INFRA PROJECT PVT. LIMITED	39,05,000	KAVIT INFRA PROJECT PVT. LIMITED	1,89,35,000
KAVIT SWACHH ORGANIC FOOD PVT. LIMITED	60,35,000	KAVIT SWACHH ORGANIC FOOD PVT. LIMITED	1,77,55,500
SAUVER FINVEST MUTUAL BENEFITS LIMITED	55,12,500	SAUVER FINVEST MUTUAL BENEFITS LIMITED	1,50,82,000
TOTAL	13,64,11,790	TOTAL	16,23,36,786

61. **Submissions made by the Noticees** – Noticees no. 1, 2, 6, 7 and 9 of the SCN have *inter alia* submitted that as the Company had many loans and advances and loan liabilities in year 2016–17 which it had to sort out by taking another loan or by paying old loans, the Company had not been doing any round tripping of funds.
62. **Findings** – I cannot accept the explanation offered by the Company. I note that in most of the cases, the Company had availed loans from entities and had also extended loans to the same entities despite there being outstanding amounts. Further, in the absence of any loan agreements, the purpose for which such loans were taken/extended such as pre-existing business arrangements, etc. the transactions do not appear genuine.
63. Section 21 of the SCRA states: “Where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange.” Further, the relevant provisions of the LODR Regulations, 2015 including Clause 50 of the Listing Agreement are reproduced below –

“Principles governing disclosures and obligations.

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

- (a) Information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosure.*
- (b) The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.*
- (c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.*
- (g) The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognised stock exchange(s) in this regard and as may be applicable.*

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

(f) Responsibilities of the Board of Directors: *The Board of Directors of the listed entity shall have the following responsibilities:*

(i) Disclosure of information:

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

(ii) Key functions of the board of directors –

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

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

(iii) Other responsibilities –

(1) The board of directors shall provide strategic guidance to the listed entity, ensure effective monitoring of the management and shall be accountable to the listed entity and the shareholders.

(3) Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.

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

(12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.

Financial results.

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

(c) *The standalone financial results and consolidated financial results shall be prepared as per Generally Accepted Accounting Principles in India:*

Provided that in addition to the above, the listed entity may also submit the financial results, as per the International Financial Reporting Standards notified by the International Accounting Standards Board.

Accounting Standards.

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

Clause 50 of the Listing Agreement for equity shares states that: *“The Company will mandatorily comply all the Accounting Standards issued by the Institute of Chartered Accountants of India (“ICAI”) from time to time.”*

64. From the aforementioned provisions of law, it is observed that a listed company is required to ensure compliance *inter alia* with all the applicable and notified Accounting Standards including Accounting Standards issued by the ICAI in respect of its disclosure taking into consideration the interest of all stakeholders. Under the aforementioned provisions, Directors have also been entrusted with responsibilities of *inter alia* ensuring the integrity of the listed entity’s accounting and financial reporting systems, maintaining high ethical standards and shall take into account the interests of stakeholders, etc.
65. In addition to the above, Sections 12A(a), (b) and (c) of the SEBI Act read with Regulation 3(b), (c) and (d) of the PFUTP Regulations, 2003 *inter alia* prohibit employment of any manipulative/deceptive device, scheme or artifice to defraud in connection with dealing in securities; engaging in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with dealing in securities. Regulation 4(1) of the PFUTP Regulations, 2003, provides for prohibition on indulging in fraudulent or unfair trade practices in securities while Regulations 4(2)(f) and (r) states that dealings in securities by a person shall be deemed as fraudulent if it involves ‘*fraud*’ including publishing/reporting any false information by a person prior to/in the course of dealing in securities and planting of misleading and false news, which may induce sale or purchase of securities.

66. In its Order dated October 25, 2016 in *Appeal No. 126 of 2013 (Pan Asia Advisors Limited vs. SEBI)*, the Hon'ble SAT while interpreting the expression 'fraud' under the PFUTP Regulations, 2003, observed:

13. *"From the aforesaid definition of 'fraud' it is absolutely clear that if a person by his act either directly or indirectly causes the investors in the securities market in India to believe in something which is not true and thereby induces the investors ... to deal in securities, then that person is said to have committed fraud on the investors ..."*

67. The shareholding pattern of the Company as on December 31, 2017, is given hereunder –

CATEGORY OF SHAREHOLDER	NO. OF SHAREHOLDERS	NO. OF EQUITY SHARES	SHAREHOLDING %
A. PROMOTER & PROMOTER GROUP	14	2,66,46,983	43.03%
B. PUBLIC	5,511	3,52,86,350	56.97%
C. NON-PROMOTER-NON-PUBLIC	—	—	—
GRAND TOTAL	5,525	6,19,33,333	100.00%

68. From the preceding paragraphs, the following is noted –

- a. The irregularities/misstatements, etc. observed from the Annual Reports, Books of Accounts, etc. of Kavit Industries were within the knowledge of the Company and its Directors.
- b. The Company and its Directors failed to comply with A. S. 13 and A. S. 18 for non-provisioning of substantial diminution in value of quoted investments and non-disclosures of relevant related party transactions and amounts outstanding to/from related parties.
- c. The Company and its Directors had misused company funds including through grant of loans, which have in most cases not been recovered.
- d. The Company and its Directors have not been able to substantiate the increase in revenue from operations from ₹33.96 Crores in Financial Year 2015–16 to ₹177.93 Crores in Financial Year 2016–17 with sufficient documentary evidence.
- e. Therefore, the Company and its Directors had employed a device or artifice to fraudulently misuse/ misrepresent the funds/Books of Accounts.

69. Upon a consideration of the findings contained in the preceding paragraphs, I find that Kavit Industries and its Directors had violated Section 21 of the SCRA read with Regulation 4(1)(a), (b), (c) and (g), Regulation 4(2)(f)(i)(2), Regulation 4(2)(f)(ii)(6)&(7) and Regulations 4(2)(f)(iii)(1),(3),(6)&(12) of the LODR Regulations, 2015, by failing to abide by the principles governing disclosures and obligations under the aforesaid Regulations. In addition, I find that Kavit Industries had violated Regulation 33(1)(c) of the LODR

Regulations, 2015 since it failed to ensure compliance with the requirements mandated under the aforesaid Regulation in respect of its financial results. I also find that Kavit Industries had also violated Regulation 48 of the LODR Regulations, 2015 read with Clause 50 of the Listing Agreement.

70. The aforementioned actions of the Company and its Directors clearly resulted in *'fraud'* as defined under the PFUTP Regulations, 2003, being committed by the aforementioned entities, which in turn affected the interests of investors in the securities market. The investors were wrongly led to believe that Kavit Industries enjoyed healthy financials and therefore, may also have been induced into investing in the securities of the said Company. Accordingly, I find that Kavit Industries and its Directors committed *'fraud'* in the securities market thereby violating Sections 12A(a), (b) and (c) of the SEBI Act read with Regulation 3(b), (c) and (d) and Regulation 4(1) and Regulations 4(2)(f) and (r) of the PFUTP Regulations, 2003.
71. As per information obtained by SEBI from BSE website and Annual Reports of Kavit Industries, the details pertaining to the Board of Directors of the Company are as under –

TABLE XIII – BOARD OF DIRECTORS OF KAVIT INDUSTRIES				
Sr. No.	NAME	DESIGNATION	APPOINTMENT	RESIGNATION
1.	JAYESH RAICHAND BHAI THAKKAR	MANAGING DIRECTOR AND COMPLIANCE OFFICER	28.01.2011	–
2.	MONISH MALHOTRA	ADDITIONAL NON-EXECUTIVE INDEPENDENT DIRECTOR	28.04.2017	16.07.2018
3.	AMIT TARACHAND SHAH	INDEPENDENT DIRECTOR	14.05.2011	29.06.2017
4.	JIGAR MOTTA	INDEPENDENT DIRECTOR	14.05.2011	6.09.2017
5.	CHIRAG THAKKAR	NON-EXECUTIVE DIRECTOR	12.03.2014	–
6.	BHAVESH DESAI	INDEPENDENT DIRECTOR	04.06.2016	–
7.	NIKHIL BHUT	–	07.11.2016	6.09.2017
8.	KALYANI RAJESHIRKE	NON-EXECUTIVE DIRECTOR	02.11.2015	–
9.	KIRAN SONI	INDEPENDENT DIRECTOR	14.05.2011	6.09.2017

72. In addition to the above, details regarding the Audit Committee of Kavit Industries for the period from the Financial Year 2014–15 till and 2017–18 upto December 31, 2017 are provided as under –

TABLE XIV – AUDIT COMMITTEE					
	NAME	DESIGNATION	NO. OF AUDIT COMMITTEE MEETINGS ATTENDED DURING		
			F. Y. 2016–17	F. Y. 2015–16	F. Y. 2014–15
1.	JIGAR MOTTA	CHAIRMAN	5	6	6
2.	AMIT TARACHAND SHAH	MEMBER	5	5	4
3.	MONISH MALHOTRA*	MEMBER	NOT APPLICABLE		
4.	KIRAN SONI	MEMBER	5	5	4
FOR THE PERIOD FOR THE FINANCIAL YEAR 2015–16 AND 2016–17, THE AUDIT COMMITTEE ALSO HAD NIKHIL PEDNEKAR AS ITS MEMBER. HOWEVER, HE HAD RESIGNED ON 7.02.2017. PURSUANT TO RESIGNATION OF AMIT TARACHAND SHAH AND KIRAN SONI AS DIRECTORS OF KAVIT INDUSTRIES IN FINANCIAL YEAR 2017–18, MONISH MALHOTRA WAS APPOINTED TO THE AUDIT COMMITTEE W.E.F. 28.04.2017.					

73. From Table XVII, it is observed that the entities at Sr. no. 2, 3, 4, 7 and 9 viz. Monish Malhotra, Amit Tarachand Shah, Jigar Motta, Nikhil Bhut and Kiran Soni, are the past Directors of Kavit Industries while the entities at Sr. no. 1, 5, 6 and 8 continue to be Directors in the Company. Further, from Table XIV, it is also observed that the entity at Sr. no. 2 i.e. Monish Malhotra (Past Director of Kavit Industries) was part of the Audit Committee only after his appointment as a Director of the Company and had not attended any of the meetings of the Audit Committee.
74. It is observed that the violations committed by the Company as detailed in the preceding paragraphs extended from the period from April 1, 2015 upto December 31, 2017. In this context, it is observed that all the aforementioned entities were Directors in the Company during the said period and in some cases, also members of the Audit Committee of the Company. As Directors of a listed company, the aforementioned entities have a greater responsibility as they have access to inside information such as the financials of the company; its operations, etc. and in such capacity, take major decisions on behalf of the company, which affect its shareholders and future investors. In my view, making false representations to the public has to be dealt with strongly. The conduct of the aforementioned entities in perpetrating the manipulation/fraud is clearly to the detriment of the interests of investors and the securities market.
75. As regards Monish Malhotra, it is reiterated that he was appointed as a Director on April 28, 2017 and resigned on July 16, 2018. Further, although he was appointed as a member of the Audit Committee of the Company, he had not attended any meetings. Upon a consideration of the aforementioned, I am inclined to drop the allegation as contained in the SCN against Monish Malhotra without any adverse inference.

ORDER –

76. In view of the foregoing, I, in exercise of the powers conferred upon me in terms of Section 19 read with Section 11(4) and Section 11A and Section 11B of the SEBI Act and Regulation 11 of PFUTP Regulations, 2003 read with the Listing Regulations, 2015, hereby issue the following directions –
- (i) Kavit Industries is restrained from accessing the securities market and is further prohibited from buying, selling or otherwise dealing in securities in any manner whatsoever, either directly or indirectly for a period of **3 years**.
 - (ii) Jayesh Raichand Bhai Thakkar, Amit Tarachand Shah, Jigar Motta, Chirag Thakkar, Bhavesh Desai, Nikhil Bhut, Kalyani Rajeshirke and Kiran Soni are restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities in any manner whatsoever, either directly or indirectly for a period of **3 years**.
 - (iii) Jayesh Raichand Bhai Thakkar, Amit Tarachand Shah, Jigar Motta, Chirag Thakkar, Bhavesh Desai, Nikhil Bhut, Kalyani Rajeshirke and Kiran Soni are prohibited from holding any position as Director or Key Managerial Person of any other listed company for a period of **3 years**.
 - (iv) The SCN dated July 13, 2018, issued to Monish Malhotra is disposed of without any further directions and the restraint imposed on him vide the Interim Order and the Confirmatory Order are vacated with immediate effect.
77. This Order shall come into force with immediate effect.
78. A copy of this Order shall be forwarded to –
- i. Stock Exchanges and Depositories for their information and necessary compliance.
 - ii. Ministry of Corporate Affairs along with a copy of the Forensic Audit Report for their information.

Place: Mumbai
Date: September 28, 2018

G. MAHALINGAM
WHOLE TIME MEMBER
SECURITIES AND EXCHANGE BOARD OF INDIA