Department: Investigation	Segment: All
Circular No: MSE/ID/19627/2026	Date: August 26, 2026

Subject: SEBI Final Order in the matter of Varanium Cloud Limited

To All Members,

This is with reference to MSE Exchange vide circular no. MSE/ID/16205/2024 dated October 22, 2024, has confirmed the directions issued vide the Interim Order no WTM/ASB/CFD/CFD-SEC 3/30894/2024-25 dated October 21, 2024, wherein SEBI has restrained following entity from buying, selling or dealing in the securities market or associating themselves with the securities market, either directly or indirectly, in any manner whatsoever until further orders.

Sr. No.	Name of Entity	PAN
1	Varanium Cloud Limited	AAZCS6264J
2	Harshawardhan Hanmant Sabale	BMMPS9407G

Further, SEBI vide Order No. WTM/AS/CFID/CFID-TPD/32680/2026-27 dated August 25, 2026, where in SEBI has restrained below Noticees from buying, selling or dealing in securities or associating themselves with the securities market, either directly or indirectly, in any manner whatsoever from the date of this order.

Noticee No.	Name of the Noticee	PAN	Period of Debarment
1	Varanium Cloud Limited	AAZCS6264J	7 Years
2	Harshawardhan Hanmant Sabale	BMMPS9407G	7 Years
3	Vinayak Vasant Jadhav	AMQPJ0393P	1 Year
4	Mukundan Raghavan	AAAPR9571K	1 Year
5	Hetal Somani	DRKPM6055H	Disposed off
6	First Overseas Capital Limited	AAACL4737A	2 Years
7	Athos Capital Advisors Private Limited	AAICA9336J	2 Years
8	Jinesh Narottamdas Mehta	AAJPM8210D	2 Years
9	Raj Jagtani	ADOPJ5144R	4 Years
11	Fahim Iunus Shaikh	BLRPS5717H	1 Year
12	Kalpesh Anil Achareka	AVMPA0374J	Disposed off

The detailed order is available on SEBI website - http://www.sebi.gov.in

This order shall come into force with immediate effect.

Members are advised to take note of the above and ensure compliance.

For and on behalf of
Metropolitan Stock Exchange of India Limited

Shweta Mhatre
Assistant Vice President

WTM/AS/CFID/CFID-TPD/32680/2026-27

SECURITIES AND EXCHANGE BOARD OF INDIA

ORDER

Under Section 11(1), 11(4), 11(4A), 11B(1) and 11B(2) of the Securities and Exchange Board of India Act, 1992

In respect of

Sr. No.	Noticee no.	Name of the Noticees	Permanent Account Number (PAN)
1	1	Varanium Cloud Limited	AAZCS6264J
2	2	Harshawardhan Hanmant Sabale	BMMPS9407G
3	3	Vinayak Vasant Jadhav	AMQPJ0393P
4	4	Mukundan Raghavan	AAAPR9571K
5	5	Hetal Somani	DRKPM6055H
6	6	First Overseas Capital Limited	AAACL4737A
7	7	Athos Capital Advisors Private Limited	AAICA9336J
8	8	Jinesh Narottamdas Mehta	AAJPM8210D
9	9	Raj Jagtani	ADOPJ5144R
10	11	Fahim Iunus Shaikh	BLRPS5717H
11	12	Kalpesh Anil Acharekar	AVMPA0374J

(The aforesaid entities are hereinafter individually referred to by their respective names/ Noticee No. and collectively as "Noticees" unless the context specifies otherwise).

In the matter of Varanium Cloud Limited

Background

1. Securities and Exchange Board of India (hereinafter referred to as "**SEBI**"), pursuant to taking cognizance of certain newspaper articles/ media posts, undertook a preliminary examination of the affairs of Varanium Cloud Limited (hereinafter referred to as the **"Varanium"/ "Company"/ "Noticee no. 1"**). The said preliminary examination (conducted pending completion of investigation) revealed certain flagrant violations which culminated into issuance of an *interim order* dated May 10, 2024 (hereinafter referred to as the **"Interim Order"**) against the Company and its promoter and Managing

Director i.e., Mr. Harshawardhan Hanmant Sabale. Pursuant thereto, a confirmatory order was passed on October 21, 2024 (hereinafter referred to as the **"Confirmatory Order"**), confirming the directions issued vide the Interim Order.

2. Post the issuance of the Confirmatory Order, further investigation in the matter was conducted to examine the violation of provisions of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the **"SEBI Act"**), Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 (hereinafter referred to as the **"PFUTP Regulations"**), Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter referred to as the **"LODR Regulations"**), Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (hereinafter referred to as the **"ICDR Regulations"**), and Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (hereinafter referred to as the **"SAST Regulations"**).

Issuance of Show Cause Notice

3. After completion of investigation, a show cause notice (hereinafter referred to as the **"SCN"**) dated October 20, 2025 was issued to the Noticees wherein the following allegations were levelled against them:

Table No. : 1

Sr. No.	Name of Noticee	Allegation	Provisions allegedly violated
1	Varanium Cloud Limited	1. Misrepresented financial statements, prospectus and its financial disclosures as a scheme to defraud the shareholders. The misrepresentation	1. Section 12A(a), (b) and (c) of the SEBI Act, Regulations 3 (a), (b), (c), (d) and 4(1), 4(2) (f), (k) and (r) of PFUTP Regulations, 2003, Regulation 24(1) of **ICDR Regulations"**), Regulations 4(1)(a), (b), (c), (e), (g) (j), Regulation 33(1) (a) & (c) and Regulation 48 of LODR

Sr. No.	Name of Noticee	Allegation	Provisions allegedly violated
		included fictitious sales and purchases;	Regulations read with Ind AS-1 for mis-stating financials and prospectus;
		2. Incorrect Statement of deviation on utilization of proceeds of Initial Public Offer ('IPO');	2. Regulations 32(1), (4), (5) of SEBI LODR Regulations, 2015 for incorrect Statement of deviation on utilization of IPO funds;
		3. Submitted incorrect shareholding percentages of promoter and public;	3. Regulations 31 (1) of LODR Regulations, 2015 for submission of incorrect shareholding pattern;
		4. Mis-utilized IPO and Rights Issue proceeds and diverted funds to promoter group entities;	4. Regulations 3 (a), (b), (c), (d) and 4(1), of PFUTP Regulations, 2003 for mis-utilisation of IPO and Right issue funds;
		5. Provided misleading information to the investors and stock exchanges regarding various business acquisitions;	5. Regulations 4(1), 4(2) (f), (k) and (r) of PFUTP Regulations, 2003; Regulations 4(1)(c) and (e) of LODR Regulations, 2015 for misleading and inaccurate announcement;
		6. Disclosed misleading quotation under objects of Issue and non-disclosure of litigations in prospectus and letter of offer;	6. Regulation 24(1) of SEBI (ICDR) Regulations, 2018 for misleading information in prospectus and its financial disclosures;
		7. Did not disclose related party transactions ('RPTs');	7. Para A of Schedule V read with Regulation 34(3) of LODR Regulations for non-disclosure of RPTs.

Sr. No.	Name of Noticee	Allegation	Provisions allegedly violated
2	Harshawardhan Hanmant Sabale, Managing Director of VCL and Varanium Networks Private Limited (hereinafter referred to as the **"VNPL"**)	1. Misrepresented financial statements, prospectus and its financial disclosures as a scheme to defraud the shareholders. The misrepresentation included fictitious sales and purchases made by VCL;	1. Section 12A(a), (b) and (c) of the SEBI Act, Regulations 3 (a), (b), (c), (d) and 4(1), 4(2) (f), (k) and (r) of PFUTP Regulations, 2003, Regulations 4(1)(a), (b), (c), (e), (g) (j), Regulation 33(1) (a) & (c) and Regulation 48 of LODR Regulations read with Ind AS-1, read with Section 27 of SEBI Act, 1992 for mis-stating financials and prospectus
		2. Disclosed incorrect statement of deviation on utilization of the IPO proceeds;	2. Regulations 32(1), (4), (5) of LODR Regulations, 2015 for Incorrect Statement of deviation on utilization of IPO funds;
		3. Submitted incorrect shareholding percentages of promoter and public;	3. Regulations 31 (1) of LODR Regulations, 2015 for submission of incorrect shareholding pattern;
		4. Did not disclose fact of disposal of shares of the Company by the promoters;	4. Regulation 29(2) read with 29(3) of SAST Regulations, 2011 for non-disclosure of share sale by promoters;
		5. Mis-utilized IPO and Rights Issue proceeds and diverted funds to promoter group entities. Promoter traded in VCL's securities for ill-gotten gains;	5. Regulations 3 (a), (b), (c), (d) and 4(1), 4(2) (f), (k) and (r) of PFUTP Regulations, for mis-utilization of IPO and Right issue funds;
		6. Provided misleading information to the investors and stock	6. Regulations 4(1)(C), (e) of LODR Regulations, 2015 for misleading announcement;

Sr. No.	Name of Noticee	Allegation	Provisions allegedly violated
		exchanges regarding various business acquisitions; 7. Disclosed misleading quotation under objects of Issue and non-disclosure of litigations in prospectus and letter of offer; 8. Did not disclose related party transactions; 9. Non-compliance with SEBI Summons.	7. Regulation 24(1) of SEBI (ICDR) Regulations 2018 for disclosing incorrect information in prospectus; 8. Para A of Schedule V read with Regulation 34(3) of LODR Regulations for non-disclosure of RPTs; 9. Section 11C(3) of SEBI Act, 1992.
3	Vinayak Vasant Jadhav, Executive Director	1. Misrepresented financial statements, prospectus and Company's financial disclosures to defraud the shareholders: Sales and purchases made were fictitious which led to the Company misrepresenting its financial statements. VCL window dressed its financials and mis-stated its sales and purchases. Journal entries were used to set off the balances of various entities without making/ receiving any payments; 2. Disclosed Incorrect Statement of	1. Section 12A(a), (b) and (c) of the SEBI Act, Regulations 3 (a), (b), (c), (d) and 4(1), 4(2) (f), (k) and (r) of PFUTP Regulations, Regulation 24(1) of ICDR Regulations, Regulations 4(1)(a), (b), (c), (e), (g) (j), Regulation 33(1) (a) & (c) and Regulation 48 of LODR Regulations read with Ind AS-1 read with Section 27 of SEBI Act for mis-stating financials and prospectus; 2. Regulations 32(1), (4), (5) of LODR Regulations for Incorrect Statement

Sr. No.	Name of Noticee	Allegation	Provisions allegedly violated
		deviation on utilization of IPO proceeds; 3. Submitted incorrect shareholding percentages of promoter and public; 4. Did not disclose related party transactions;	of deviation on utilization of IPO funds; 3. Regulations 31 (1) of LODR Regulations, for submission of incorrect shareholding pattern; 4. Para A of Schedule V read with Regulation 34(3) of SEBI LODR Regulations for non-disclosure of RPTs.
4	Mukundan Raghavan, Ex-Chief Financial Officer of the company	1. Misrepresented financial statements, prospectus and its financial disclosures; This operated as a scheme to defraud the shareholders: Sales and purchases made by VCL were fictitious which led to VCL misrepresenting its financial statements. VCL window dressed its financials and mis-stated its sales and purchases. Journal entries were used to set off the balances of various entities without making/ receiving any payments; 2. VCL disclosed incorrect statement of deviation on utilization of IPO proceeds;	1. Section 12A(a), (b) and (c) of the SEBI Act, Regulations 3 (a), (b), (c), (d) and 4(1), 4(2) (f), (k) and (r) of PFUTP Regulations, Regulation 24(1) of ICDR Regulations, Regulations 4(1)(a), (b), (c), (e), (g) (j), Regulation 33(1) (a) & (c) and Regulation 48 of LODR Regulations read with Ind AS-1 for mis-stating financials and prospectus; 2. Regulations 32(1), (4), (5) of LODR Regulations for Incorrect Statement of deviation on utilization of IPO funds;

Sr. No.	Name of Noticee	Allegation	Provisions allegedly violated
		3. VCL did not disclose related party transactions.	3. Para A of Schedule V read with Regulation 34(3) of LODR Regulations for non-disclosure of RPTs.
5	Hetal Somani, ex-Company Secretary and Compliance Officer	As compliance officer, Noticee no. 5 failed to make disclosure of the mis-utilization of the IPO proceeds and Rights issue proceeds and correct disclosure of shareholding pattern of Promoter and Public Shareholders.	Regulation 6(2) (a) read with 32(1), (4), (5) of LODR Regulations for failure in obligation of compliance officer
6	First Overseas Capital Ltd., Merchant Banker ('FOCL')	1. Failed to exercise due diligence and proper care in the preparation of the prospectus, over-reliance on Company-provided certifications, failure to verify key financial disclosures; 2. Failure to disclose pending litigations in prospectus.	1. Clause 2, 4 of Schedule III read with Regulation 13 of SEBI (Merchant Bankers) Regulations, 1992 (hereinafter referred to as the **"MB Regulations"**), Clause 2(c) of Form A of Schedule V read with Regulation 24(3), 25(2)(b) of ICDR Regulations; 2. Regulation 24(1) of ICDR Regulations, Clause 12 of Schedule VI of the ICDR Regulations, for disclosing incorrect information in prospectus
7	Athos Capital Advisors Private Limited ('ACAPL')	Aided and abetted the Company and directors of VCL in devising a scheme to defraud investors by making misrepresentations in the IPO prospectus.	Sections 12A (a), (b), (c) of SEBI Act, Regulations 3 (a), (b), (c), (d) and of PFUTP Regulations for aiding the promoter.
8	Jinesh Narottamdas Mehta, Director of ACAPL	Aided and abetted the Company and directors of VCL in devising a scheme to defraud investors by making	Sections 12A (a), (b), (c) of SEBI Act, Regulations 3 (a), (b), (c), (d) and 4 (1) of PFUTP Regulations for aiding the promoter.

Sr. No.	Name of Noticee	Allegation	Provisions allegedly violated
		misrepresentations in the IPO prospectus.	
9	Raj Jagtani, Proprietor of BM Traders	1. Aided and abetted VCL and its directors in executing the fraudulent scheme to mis-utilize/ siphon off the IPO and Right issue proceeds and also benefitted from it; 2. Non-compliance with SEBI summons.	1. Section 12A(a), (b) and (c) of the SEBI Act, 1992 read with Regulations 3 (a), (b), (c), (d) and 4(1) of SEBI PFUTP Regulations for aiding promoter in diversion of VCL's funds; 2. Sections 11(2)(ia) & 11C(3) of the SEBI Act for non-compliance with SEBI summons
10	Fahim Iunus Shaikh, Executive Director	1. One of the signatories to prospectus, that omitted material information and also contained misstatements; 2. Non-disclosure of related party transactions in annual reports.	1. Sections 12A (a), (b), (c) of SEBI Act, Regulation 24(1) of ICDR Regulations, Regulations 3 (a), (b), (c), (d) and 4 (1), 4(2) (f) (k) and (r) of PFUTP Regulations read with Section 27 of the SEBI Act for misrepresentation of prospectus and financial statements; 2. Para A of Schedule V read with Regulation 34(3) of LODR Regulations for non-disclosure of RPTs
11	Kalpesh Anil Acharekar, Non-Executive Non-Independent Director	One of the signatories to prospectus, that omitted material information and also contains misstatements.	Sections 12A (a), (b), (c) of SEBI Act, Regulation 24(1) of ICDR Regulations, Regulations 3 (a), (b), (c), (d) and 4 (1), 4(2) (f) (k) and (r) of PFUTP Regulations read with Section 27 of the SEBI Act for misrepresentation of prospectus and financial statements

4. The aforesaid SCN was delivered to all the Noticees via Speed Post Acknowledgement Due and the proof of delivery is on record. Pursuant to the same, an opportunity of hearing was accorded to all the Noticees on February 12 and 13, 2026. The said opportunity was availed by Noticees no. 1, 2, 5, 9

and 12 through their authorized representatives (‘AR’) and by Noticees no. 3, 4 and 11 by appearing in person. Noticees no. 7 and 8, vide email dated February 8, 2026 submitted that they did not wish to avail the opportunity of hearing provided in the matter. Noticee no. 9, during the course of hearing on February 13, 2026, submitted that he had not received the annexures to the SCN. Accordingly, he was intimated that the said annexures shall be made available to him and he may file his written submissions in the matter within a period of one month from the date of receipt of the said annexures. Noticee no. 6 failed to avail the opportunity of hearing on the scheduled date. Noticees no. 6 and 9 were provided with an opportunity of hearing in the matter on March 24, 2026. Noticees no. 6 and 9 appeared through their authorized representatives on the scheduled date of hearing. The AR of Noticee no. 6 reiterated the submissions made vide letter dated February 27, 2026. The AR of Noticee no. 9, requested time to file written submissions and submitted that no further opportunity of hearing was required in the matter.

5. The AR of Noticee no. 1, during the course of hearing on February 12, 2026, had sought time of three weeks to file additional submissions in the matter which was acceded to. Further, AR of Noticee no. 2, during the course of personal hearing, had also requested four weeks’ time to file further written submissions in the matter. However, no response has been received from either Noticees as on date.

6. In light of the above, I note that all the Noticees have been accorded with appropriate opportunity to place their written submissions on record and to avail an opportunity of hearing.

7. The submissions made by the Noticees, through written replies and oral arguments, made during the course of hearing, are summarized in subsequent paragraphs.

Noticee no. 1 – Varanium Cloud Limited

8. Noticee no. 1, vide letter dated December 24, 2025 and during the course of hearing on February 12, 2026, made the following submissions:
   (1) The written submissions have been filed under extraordinary and unprecedented circumstances, solely to prevent ex-parte prejudice and to place on record legal impossibility faced by the Company;
   (2) The Company is incapable, both in law and in fact, of filing a comprehensive/ substantive or merits based reply to the SCN. The written submissions have been filed to prevent the Company from being proceeded against ex-parte and to ensure that it is being given a full and fair opportunity to be heard. The Noticee also seeks to present multiple viable solutions that are being pursued in good faith and requests Hon'ble Authority's guidance on the preferred path forward.
   (3) The Company, a distinct legal entity, is presently in a state of complete administrative and managerial paralysis. After the resignation of all directors and key managerial personnel ('KMP'), pursuant to the interim order dated May 10, 2024, the post of Managing Director is vacant and it has become impossible for the Company to achieve a valid Board quorum under Section 174 of the Companies Act, 2013 and to act with lawful authority. The situation has rendered the Company legally incapable of undertaking basic corporate actions, including holding Board or general meetings and providing valid instructions to legal counsel and constitutes a genuine case of *lex non cogit ad impossibilia* (the law does not compel the impossible). In light thereof, the Noticee is not in a position to file written submissions, on merits, in the matter,
   (4) The Company is a legal entity distinct from its erstwhile directors and officers and any adverse or ex-parte order against the Company would disproportionately prejudice its public shareholders which will be against the mandate of investor protection;
   (5) Right to a fair hearing is a cornerstone of administrative law and a meaningful opportunity to be heard necessarily presupposes the ability to be represented by a duly authorized person. In a situation of legal and

factual impossibility arising from a complete collapse of governance, denial of reasonable procedural accommodation would render the right to be heard illusory and purely formal;

(6) The Company is pursuing certain genuine bonafide steps to restore minimum governance and enable a meaningful response to the SCN which, *inter alia*, include:

   a) initiation of proceedings before Hon'ble National Company Law Tribunal ('NCLT') for appointment of an independent administrator;
   b) exploration of statutory remedies available through regulatory authorities under the Companies Act, 2013, including intervention by the Registrar of Companies, if require;
   c) co-ordination with shareholders for lawful reconstitution of governance; and
   d) preparation for an independent fact-finding or forensic examination to assist any duly authorized administrator or reconstituted Board in responding objectively to the SCN;

(7) The Noticee has also sought guidance of SEBI on the appropriate procedural path to resolve the present impasse in a manner consistent with investor protection, fairness and due process. SEBI may consider either appointment of an NCLT appointed administrator or a temporary limited purpose relaxation of the interim order to permit Mr. Sabale to provide factual clarification and access assistance to independent counsel for the Company;

(8) Pending restoration of minimum governance within the Company, the present proceedings may be kept in abeyance as regards the Company. However, the said proceedings may be continued against individual Noticees, whose liability is personal and independent;

(9) In the interest of efficiency and fairness, the proceedings may be bifurcated. The proceedings may be continued against Noticees no. 2-12 (individuals) who can and must defend themselves and the proceedings against the Company may be kept in abeyance for a period of 100-120

days to allow the appointment of an administrator and filing of a comprehensive reply.

<u>Notice no. 2 – Mr. Harshawardhan Sabale</u>

9. The submissions made by Noticee no. 2, vide letter dated February 11, 2026 are summarized as under:
   (1) Entire proceedings, including the SCN, are *void ab initio*, as they are founded upon a blatant and deliberate violation of the principles of natural justice, specifically the doctrine of *Audi Alteram Partem*. The SCN and the preceding ex-parte interim order were issued despite the Noticee's repeated and documented requests for a personal hearing, demonstrating a clear intent to cooperate;
   (2) Under doctrine of regulatory estoppel, SEBI is precluded from simultaneously doing the following:
      a. The Noticee's reliance on statutory and professional intermediaries cannot be retrospectively negated by governance paralysis that was subsequently and regulatory induced;
      b. Acts lawfully undertaken within a valid governance framework cannot be later judged through the lens of a later created impossibility;
      c. By issuing the interim ex-parte order which has precipitated a complete collapse of the Noticee's governance structure, SEBI has created an impossible situation;
      d. Penalizing the consequence: by issuing a SCN and threatening ex-parte adjudication for non-compliance that is a direct result of the said impossibility;
      e. Benefitting procedurally: by intending to use the inability to cooperate and produce documents as adverse evidence tantamount to an admission of guilt.
   (3) The following causal sequence establishes that the governance paralysis and the impossibility of cooperation is a direct, proximate, and foreseeable consequence:

a. Pursuant to the interim order, Noticee no. 2 has been legally incapacitated from performing any managerial functions, including authorizing document production or instructing company officers.
b. The interim order triggered a cascade of resignations resulting in resignation of the MD and other KMPs which proves a direct and foreseeable causation;
c. It is settled that governance breakdown caused by regulatory intervention cannot be used to impeach the legality of actions undertaken when governance was intact. Liability must be assessed with reference to the factual matrix existing at the time of the impugned act, and not through hindsight distorted by subsequent regulator-induced paralysis;
d. Secondary consequences included freezing of bank accounts, restriction of officer premises by the landlord due to unpaid rent and sealing of office premises;

(4) Despite being aware of the governance collapse, SEBI continued its proceedings by issuing summons, a confirmatory order and ultimately the SCN all while knowing that no person with legal authority existed to respond on behalf of the Company;

(5) Noticee no. 2 had a legitimate expectation that SEBI, as a fair regulator, would conduct its investigation without creating conditions that make a defence impossible. By issuing the interim order and then demanding a response SEBI has violated this legitimate expectation;

(6) The issuance of the interim order that effectively destroyed the Company was based on an incomplete investigation and was disproportionate measure. The consequences were result of this disproportionate action and SEBI, now, cannot hold the Noticee no. 2 liable for these consequences;

(7) The proceedings are also vitiated by a flagrant disregard for the principles of natural justice, specifically the right to be heard (*Audi Alteram Partem*). Hon'ble Supreme Court in the matter of ***Maneka Gandhi Vs. Union of India*** and the subsequent jurisprudence has held the right to a fair hearing is a substantive right and not an empty procedural formality. Where a

respondent faces objective legal and factual impossibility, denying procedural accommodation renders the right illusory;

(8) The present proceedings are barred by the statutory moratorium under Section 96 of Insolvency and Bankruptcy Code, 2016 (hereinafter referred to as the "**IBC**"). Section 96 of the IBC encapsulates that an interim moratorium shall commence on the date of application and any legal action/ proceedings in respect of any debt shall be deemed to have been stayed. While SEBI may characterize its proceedings as one concerning '*market conduct'*, the functional effect of the said proceedings is that of a creditor's claim. The potential penalty, estimated at ₹50-100 crores would be a charge on the personal assets of Noticee no. 2, directly competing with and depleting the assets available to satisfy the debt of ₹11.72 crore to Skybirdge, which forms the basis of the IBC application;

(9) Section 238 of IBC contains a non-obstante clause giving an overriding effect to the IBC over anything inconsistent contained in any other law and thus, the absolute stay mandated by Section 96 of IBC must prevail over the procedural rules governing SEBI's enforcement actions. Section 96(1)(b) employs broad and unambiguous term '*any legal action or proceeding*' which shows that the legislature has not carved out any exception for regulatory proceedings.

(10) The Noticee's attempts to engage with the authorities were systematically ignored. The Noticee vide letters/ emails dated December 22, 2023, February 12, 2024, April 12, 2024 were not entertained by the authorities. SEBI, vide email dated April 12, 2024 stated that *"kindly note that, as of now no formal physical meeting has been scheduled by SEBI in this matter"* and then 28 days later, issued the draconian interim order on May 10, 2024;

(11) The interim order, which forms the basis of the SCN, was issued without satisfying the essential pre-conditions for such extra-ordinary measure. Ex-parte orders are reserved for situations of extreme urgency where the Noticee is deliberately evasive or contumacious. The conduct of Noticee, evidenced by his detailed written responses in March - April, 2024 is antithesis of non-cooperation. The SCN's allegation in Para 119 of

"complete non-cooperation and defiance" is a gross misrepresentation of facts, contradicted by SEBI's own records;

(12) The SCN, although invoking fraud under Section 12A of the SEBI Act and the PFUTP Regulations, has failed to establish the elements of fraud *qua* the Noticee no. 2. The SCN has erroneously conflated alleged corporate misdeeds with the personal liability of the MD without piercing the corporate veil;

(13) Although the SCN alleged that the statements in the IPO prospectus and the '*Statement of Deviation*' were false, it fails to prove that Notice no. 2 possessed *scienter* – a conscious knowledge about their falsity;

(14) The prospectus was prepared by the professional advisors, including the merchant banker (Athos Capital, Noticee no. 8). Noticee no. 2, in his capacity as the MD, was entitled to rely on the due diligence and expertise of these professionals. The reliance occurred prior to issuance of the interim order when the Company had a fully functional board;

(15) The allegation of 'fictitious sales' to Amtelfone rests entirely on a post-facto statement by an accountant, Mr. Kamlesh Jain, that the Noticee "dictated revenue figures". Such uncorroborated statements made after commencement of investigation is legally insufficient to prove a guilty mind and the said statement has not been supported by any email, memo or other documentary evidence;

(16) The SCN infers fraudulent intent from alleged governance lapse such as informal board which is a flawed conclusion as such lapses may potentially violate the LODR Regulations and are indicative of operational style of an emerging company but cannot be equated with a deliberate scheme to defraud investors;

(17) Noticee no. 2 infused significant personal capital into the Company and the said conduct of the Noticee, along with active engagement with the regulator before the interim order, belies any fraudulent intent;

(18) The allegation of a 'significant price rise' due to misleading disclosures is a bald assumption devoid of any market analysis to rule out genuine investor sentiment or other market dynamics;

(19) The SCN fundamentally misapplies the PFUTP Regulations for the following reasons:

a. BM Traders issue: the characterization of BM Traders as a front entity is unsubstantiated conclusion as the routing of funds through BM Traders was an internal accounting/ corporate governance matter and does not constitute a fraud upon the market;

b. Related Party Transactions: Alleged non-disclosure of RPTs is, at worst, a violation of LODR Regulations and cannot be conflated with market fraud under PFUTP Regulations;

(20) The SCN unfairly places the entire onus of the alleged violations on Noticee No. 2, while failing to adequately scrutinize the statutory roles and responsibilities of other fiduciaries involved in the IPO process.

(21) Without prejudice to the above, even if any allegation is held to be established, that would, at best, constitute a regulatory or governance lapse and not a deliberate fraudulent scheme.

(22) **Failure Of The SCN To Meet The Legal Threshold For Pleading Fraud** - The Supreme Court of India, in ***SEBI v. Ketan Parekh***[1] ('Ketan Parekh'), has held that fraud allegations in securities markets require affirmative proof of five indispensable elements, each independently verifiable and each independently necessary to the fraud allegation. The said elements are false representation, knowledge of falsity, intent to deceive, reliance by investor and quantifiable loss and the SCN fails to establish any of these elements;

(23) The SCN fails to identify any false representation with the requisite precision and merely provides generic allegations such as "*revenue appears unsupported*" and "*transactions lack verification*" without quoting the specific statement from the prospectus or financial statements;

(24) The SCN fails to produce any contemporaneous documentary evidence to prove that Noticee no. 2 possessed conscious awareness that any statement was false at the precise time of its making and it relies on post-

[1] (2003) 4 SCC 91

facto statements made after the investigation commenced. The SCN has conflated potential business judgment errors or governance lapses with fraudulent intent, which is legally impermissible;

(25) The SCN fails to establish that Noticee no. 2 deliberately made false statements with the specific knowledge and purpose that they would deceive investors. The SCN must distinguish fraudulent intent with good-faith judgment errors;

(26) The SCN fails to identify a single specific investor who read, understood and relied upon any specific alleged false representation in making their trading decisions and it makes a generic "*investor harm*" allegation without providing any investor testimony, trading records, etc.;

(27) The SCN alleged ill-gotten gains without providing any loss calculation methodology and fails to distinguish between investor losses resulting from the alleged fraud and those resulting from general market decline, competitor activity etc.

(28) **<u>Violation Of Natural Justice Due To Vague And Unspecific Allegations</u>** - In terms of the decision of the Hon'ble Supreme Court in the matter of ***Maneka Gandhi* Vs. Union of India**[2] and ***Indian Nut Products Limited Vs. Union of India***[3], regulatory authorities must identify alleged violations with specificity that enables a meaningful defence and thus, the SCN violates this principle by alleging fraud through generic characterizations.

(29) The SCN's allegations regarding FTPL Acquisition announcement and Malta Data Centre announcement suffer from critical documentary deficiencies as the SCN fails to provide the specific NSE filing reference number, page number, etc.;

(30) The SCN employs glaring double standards as the investigation references documents with precision (specific dates, figures, account numbers), but while alleging false statements, the SCN abandons this rigor;

[2] (1978) 1 SCC 248
[3] (1994) 4 SCC 269

(31) Usage of broad temporal references like FY 2022-23 or Q3 FY 2023-24, prevents the Noticee from gathering contemporaneous evidence to mount a defence. Proof of *scienter* requires establishing knowledge at a specific moment in time, which is impossible without transaction-level temporal precision;

(32) SCN's complete absence of transaction date specificity creates four fundamental defence impediments which are as under:

   a. First, without identifying whether an Amtelfone invoice occurred on April 1, 2022 or March 31, 2023, Noticee No. 2 cannot determine what information was available at that precise moment, preventing scienter proof (knowledge of falsity at time of statement);
   b. Second, business circumstances change dramatically over 12-month periods - VCL's April 2022 operational status (early expansion phase) differed substantially from March 2023 status - yet without specific transaction dates, Noticee No. 2 cannot provide contemporaneous business context or demonstrate that circumstances justified statements made at particular moments;
   c. Third, temporal specificity is essential for targeted evidence gathering; if the SCN alleged a specific June 15, 2022 Amtelfone transaction, Noticee No. 2 could produce June 2022 emails, board minutes, and customer communications establishing legitimate business purpose, but generic "FY 2022-23" allegations spanning 365 days prevent accessing contemporaneous documentary evidence from specific dates;
   d. Fourth, establishing legitimate business purpose requires identifying what strategic decisions, customer orders, or regulatory approvals existed on the specific transaction date—without such temporal precision, this contextual defence proving transaction legitimacy becomes impossible.

Under law, when an authority alleges fraud, the same must be proved through contemporaneous evidence or witness testimony;

(33) Fraud in securities market requires proof that the statement was false when made and not merely that the circumstances changed or business plans failed to materialize months or years later.

(34) The SCN's approach regarding the FTPL acquisition announcement (Para 89) exemplifies this critical legal deficiency - the SCN alleges fraud through a logically improper three-step inference: (1) Event 1: VCL announced FTPL acquisition on January 12, 2023; (2) Event 2: The acquisition was never completed by 2024; (3) Event 3 (SCN's inference): "*Therefore the announcement was fraudulently false*";

(35) The November 22, 2023 announcement pertaining to the Malta Data Centre constituted a responsive market clarification addressing investor queries and third-party rumours, not an affirmative corporate announcement initiating disclosure of a facility. SEBI's characterizations of the '*clarifications*' dated November 22, 2023 and December 21, 2023 as '*announcements*' constituting misleading disclosures is legally untenable;

(36) The sole documentary basis for alleging that Noticee no. 2 personally directed false revenue recording is Mr. Kamlesh Jain's statement recorded approximately 10 months after SEBI had commenced the investigation and 8 months after the interim order was issued. The extended gap creates multiple reliability problems including memory degradation, witness exposure to investigation narrative etc. Despite having access to Company email systems, board meeting records etc., the IR has produced zero evidence corroborating Mr. Kamlesh Jain's allegations. Mr. Kamlesh, being the accountant responsible for recording the revenue entries, faces substantial personal liability under Section 447 of the Indian Penal Code (maintaining false books of accounts) and under Chartered Accountant professional standards. By testifying against Noticee no. 2, Mr. Kamlesh reduces his own personal exposure. Courts usually apply '*accomplice evidence*' caution to witness statements where the witness has motive to implicate others to escape personal liability;

(37) Board meetings occurred throughout FY 2022-23 but the IR produces zero evidence to show that Noticee no. 2 proposed false revenues, board

discussion of revenue recognition deviations, Chief Financial Officer (‘CFO’) or the audit committee challenging unsupported revenue etc. The CFO, obligated to maintain financial integrity, would certainly have raised concerns if Noticee no. 2 had directed false entries but absence of the same in the board minutes proves otherwise;

(38) The IR produces zero evidence for showing the Noticee no. 2 instructed the staff to ‘*record revenue despite absent supporting documents*’;

(39) No bank statement shows funds flowing back from alleged fictitious customers (like Amtelfone) proving transactions were reversed. Tally ERP system maintains immutable audit trails of all accounting entries and the IR has produced zero tally entries showing Noticee no. 2 as the creating user of the disputed revenue entries;

(40) SCN fundamentally fails to meet the legal standard for proving transaction falsity by conflating procedural non-production of documents with substantive proof of transaction non-existence. The SCN contains zero customer denials from Amtelfone or any alleged customer despite Investigation Report contacting various entities;

(41) The SCN's logical reasoning pattern is legally flawed through a three-step chain of unwarranted inferences: (1) Assertion that Amtelfone represented 85.10% of sales (factual observation not proving falsity); (2) Characterization that "*no verified receipts or payments*" exist (procedural non-production not proving non-existence); (3) Conclusion that "*transactions are fictitious*" (logical fallacy of "*absence of evidence as evidence of absence*"). This reasoning violates the Woolmington principle established in Section 101 of the Indian Evidence Act, which places burden of proving allegations on the authority alleging fraud through affirmative evidence;

(42) The SCN relies entirely on VCL's failure to produce documents, which is a procedural matter, while completely failing to establish through customer denials, bank record analysis etc., that transactions were fabricated;

(43) Under the SEBI v. Ketan Parekh framework, the fourth essential element of fraud requires proof that specific investors relied on false statements and

suffered demonstrable losses. The SCN completely fails this requirement through multiple deficiencies: (1) Zero identification of specific investors by name, account number, or PAN; (2) Zero investor testimony stating "*I read the statement and relied upon it*"; (3) Zero investor trading records demonstrating purchase timing correlated with specific announcements; (4) Zero market analysis establishing price correlation between specific statements and investor trading activity; (5) Zero causation analysis distinguishing investor reliance on statements from alternative trading factors (analyst recommendations, market sentiment, price momentum, or other market participants' activity). Instead, the SCN provides only vague, generic references to "*investors*," "*shareholders*," and "*the investing public*" without naming any individual investor who allegedly relied on or suffered loss from the alleged false statements;

(44) The actual stock price movements directly contradict SCN's fraud allegation that false statements '*intended to inflate share price*' deceived investors. The pattern shows that the IPO was listed on September 27, 2022 at normal pricing, revenue growth announcements followed by price appreciation reflecting market acceptance of statement credibility, business announcements for Malta Data Centre, FTPL acquisition, etc., negative media articles followed by price decline and regulatory interim order followed by significant price crash. The said pattern shows that market participants accepted statement credibility, as reflected in price appreciation, rather than recognizing/ rejecting allegedly obvious fraudulent falsity;

(45) Under ***SEBI vs. Ketan Parekh*** framework, the fifth essential element of fraud requires that the SCN quantify specific investor losses causally connected to the alleged fraud through transparent, transactions level methodology. The SCN's allegation of "*ill-gotten gains of ₹128.77 crores*" and "*total financial impact of ₹1,306.11 crores*" constitute conclusory assertions devoid of transparent calculation methodology or investor-specific loss documentation. Monetary allegations require sufficient specificity to enable meaningful defence and the SCN's aggregate figures

without transaction-level support, investor identification, or price-impact analysis fail to meet this basic requirement and independently defeat the loss element of the fraud allegation under ***SEBI v. Ketan Parekh***;

(46) Despite alleged ₹1,306.11 crores financial impact, zero class action suits have been filed by injured investors seeking damages which contradicts the SEBI's fraud allegations;

(47) The SCN conflates two legally distinct concepts: financial statement misstatement (revenue inflation of ₹742.96 crores and cost inflation of ₹500.64 crores) with investor trading loss (share price decline multiplied by holdings). This conflation is methodologically unsound because overstated revenue and overstated costs can offset each other, reducing net earnings impact; investor losses depend on actual share price movements, not financial statement magnitudes; and historical misstatements may not affect forward-looking equity valuations if the company remains operationally viable;

(48) Pursuant to Noticee no. 2's resignation, Mr. Vinayak Vasant Jadhav (Noticee no. 3), contrary to his claims of limited involvement, has undertaken a series of deliberate unauthorized and fraudulently intentional actions that dismantled the Company's operational infrastructure and caused severe detriment to its employees;

(49) Mr. Jadhav intentionally sold critical hardware and software infrastructure assets of all operational data centres of the Company as well as all the inventory of fashion and lifestyle products that were held in Sawantwadi;

(50) The Sawantwadi BPO and the Hydra Data Centres, which were among the assets fraudulently liquidated by Noticee No. 3, were formally inaugurated by Mr. Mukundan Raghavan. This significant event was duly published in local newspapers, copies of which are enclosed herewith. This public inauguration underscores the legitimate establishment and operational significance of these facilities, making their subsequent unauthorized sale and misappropriation by Noticee No. 3 even more egregious and indicative of fraudulent intent;

(51) Noticee no. 3, Mr. Vinayak Vasant Jadhav, has established his own BPO at the very same address where Noticee no. 1 was conducting its operations and is utilizing the operational infrastructure, including furniture, hardware and software assets. Mr. Jadhav has also diverted clients of Noticee no. 1 to this newly formed entity which is a clear case of corporate espionage, theft of intellectual property and a direct violation of non-compete and confidentiality obligations;

(52) With respect to the allegations of misuse of digital signature certificates (‘DSC’), raised by Noticees no. 3, 4 and 6, Noticee no. 2 submits as under:

a. As per the established and documented corporate governance framework of the Company, all DSCs belonging to the officers and directors, including the aforesaid Noticees, were mandatorily held in the secure and exclusive custody of the Compliance Department. This department was under the direct supervision and control of Ms. Hetal Somani, the duly appointed Company Secretary and Compliance Officer. This policy was instituted to ensure regulatory compliance, maintain a clear audit trail, and prevent any unauthorized or irregular use of such sensitive credentials, in line with the principles of the Information Technology Act, 2000;

b. The Noticee no. 2 did not possess personal custody, physical access, or direct administrative control over the DSCs of any director, including the aforesaid Noticees;

c. The disputed signatures of the aforesaid Noticees appear exclusively on official regulatory filings which were prepared, vetted, and filed by the Compliance Department under the authority of Ms. Hetal Somani, as part of the Company's statutory obligations. The use of DSCs for such purposes constitutes a legitimate and authorized corporate action, not a fraudulent act of personal misuse.;

d. The credibility of the Complainants is severely undermined by the glaring contradictions in their submissions. On one hand, they claim to have had no operational involvement and "never performed director duties," yet on the other, they admit to being authorized signatories whose DSCs were used on critical company documents. If they genuinely believed their credentials were being misused, their fiduciary duty as directors mandated immediate action, such as demanding personal custody of their DSCs, revoking them, or resigning forthwith. Their failure to take any such remedial action until October 1, 2024, after the SEBI interim order, exposes their claims as a self-serving afterthought.

(53) The SCN's allegation that "*Mr. Sabale fabricated revenues through fictitious transactions with Amtelfone, which accounted for 85.10% sales of the Company in FY 2022-23 and 71.05% in FY 2023-24*" constitutes impermissibly generalized and non-particularized pleading that violates fundamental principles of natural justice and ***SEBI v. Ketan Parekh*** jurisprudence;

(54) The SCN cites statements of three KMPs as alleged evidence of Noticee no. 2's knowledge of falsity. The said statements have been analysed as under:

a. Statement of Mr. Kamlesh Jain only establishes specific facts about accounting mechanics but do not establish scienter. Statement of Mr. Kamlesh only proves accounting reclassification occurred and that some transactions involved and some transactions involved multiple ledger entries recorded at different times. However, the said statement does not establish that the Noticee no. 2 was aware that the said reclassification was improper and that the Noticee no. 2 intended to defraud investors;

b. Statement of Ms. Hetal Somani only establishes that Noticee no. 2 provided direction on regulatory filings and that the Company Secretary ('CS') lacked an independent verification process. However, the said statement fails to establish that the Noticee no. 2 knew that the information in filings was false and that Noticee no. 2 deliberately misled regulators as opposed to relying on management information provided by the operational staff;

c. Statement of Mr. Mukundan Raghavan only establishes that the CFO had limited financial authority and that major fund movements required Noticee no. 2's approval, reflecting normal corporate governance structure with centralized financial decision making authority. However, the said statement does not establish fraud scienter and the limited authority of CFO does not prove that the Noticee no. 2 fraudulently directed payments. Noticee no. 2's knowledge that that the movements violated stated IPO objects is not established by the mere fact that he held the authority to approve them;

(55) Under ***SEBI v. Ketan Parekh (2003) 4 SCC 91***, the Hon'ble Supreme Court has held with clarity that adverse business outcomes, project delays, revenue variance, or expense overruns do not constitute evidence of fraudulent intent;

(56) The SCN's implied calculation proceeds as follows: it begins with alleged fictitious revenue of ₹742.96 Crores and assumes that full amount translates to investor loss. This implicit calculation assumes that all revenue inflation translates directly to investor loss, which is logically unsound because the company remains operationally viable and able to generate cash flows. The aggregated figure assumes proportional investor loss from revenue misstatement without any market analysis supporting the assumption. The aggregated figure assumes direct causation from revenue figure to investor trading decision, which is never proven and contradicts actual stock price patterns;

(57) If revenue truly was fabricated by more than 95%, as SCN alleges, the market would have collapsed upon discovery that revenue was unsupported. The market would not have maintained ₹200-220 price during inquiry initiation if the inquiry had revealed significant fraud evidence. Instead, market confidence collapsed only upon regulatory paralysis and restraint orders, suggesting investor concern about regulatory action rather than fraud discovery. The stock price pattern therefore contradicts rather than supports fraud allegation;

(58) The SCN alleges that Mr. Sabale "*dictated*" revenue figures, implying direct instruction for false entries, yet produces no emails or memoranda from Noticee No. 2 to accounting staff demonstrating such direction. The SCN uses the term "*fabricated*" regarding alleged fictitious transactions, implying conscious creation of false transactions with knowledge of falsity, yet provides no transaction-level proof of non-delivery of services or customer denial of receipt. The SCN characterizes fund transfers as "*diverted*" to related entities, implying unauthorized siphoning contrary to disclosed purposes, yet the IPO prospectus explicitly permitted related-entity transactions and the SCN produces no proof that authorization was denied or violated. The SCN claims Noticee No. 2 "*generated*" unlawful gains, implying personal enrichment through fraudulent scheme, yet demonstrates no personal asset accumulation by the Noticee No. 2 - instead, funds were redeployed for operational purposes;

(59) Non-specific allegations levelled in the SCN have created defence impossibility that frustrates fundamental principles of fairness and natural justice. The SCN states that "*Revenue from Amtelfone is fictitious*." Noticee No. 2 attempting to mount defence would inquire: which specific Amtelfone transaction is alleged to be fictitious? Is it the invoice dated June 15, 2022 for ₹50 Lakhs? Is it the invoice dated August 3, 2022 for ₹75 Lakhs? Is it the aggregate Amtelfone revenue across multiple invoices totalling ₹594.32 Crores? The SCN response appears to be that the generic allegation applies to all Amtelfone transactions without distinguishing which specific transactions are challenged;

(60) The SCN alleges fraud of extraordinary magnitude involving ₹1,306.11 crores yet fails to meet the fundamental threshold requirements established by ***SEBI v. Ketan Parekh*** jurisprudence, with allegations constituting conclusory characterizations rather than affirmative proofs of substantive fraud;

(61) Noticee No. 2 respectfully submits that the SCN conflates two distinct legal categories. Incomplete disclosure of related-party transaction details constitutes a governance compliance violation subject to administrative

remediation under SEBI LODR Regulations. By contrast, fraudulent concealment of transactions requires proof of intentional deception with scienter (guilty mind) to harm investors. The SCN fails to establish the latter while simultaneously treating the former as equivalent to fraud;

(62) BM Traders was transferred ₹15.46 crores (38.31% of net IPO proceeds) and ₹4.20 crores (8.67% of rights issue proceeds) not for "infrastructure development" in the conventional sense, but rather as advance payment for strategic land acquisition and land parcels-locking services specifically designed to identify, secure, and reserve rural land parcels in Sindhudurg District for planned data centres;

(63) The SCN has characterized aforesaid payments as '*fund diversion*' to a '*front entity with no legitimate business operations*' which is factually and legally unsustainable. Further, CA Hitesh Kumar Shantilal, the statutory auditor had provided unqualified certification on FY 2022-23 financials without fraud qualifications and accepted them as legitimate based on land acquisition work contracts and liaison service documentation;

(64) Noticee no. 2 transferred ₹119.17 crores to BM Traders from his personal account which shows that the funds were systematically deployed for land acquisition, parcel locking arrangements etc. The fund deployment demonstrates sequential phasing: initial ₹19 crore advance deployment (₹15.46 crores IPO + ₹4.20 crores Rights Issue) to lock in priority land parcels in Sindhudurg District coinciding with timing of facility commissioning decisions; subsequent ₹119.17 crores personal account deployment for expanded land acquisition across rural Maharashtra to identify future data centres sites for geographic expansion;

(65) VCL contemplated to establish containerized Edge Data Centres ('EDCs') at multiple locations across non-urban areas and therefore, required specialized local expertise and BM Trader's sectoral positioning;

(66) Without prejudice to all preceding contentions and all rights reserved, a reasonable extension of 90-180 days may be granted for production of documentary evidence substantiating BM Traders' legitimacy as a land acquisition liaison entity. BM Traders' operational records, land acquisition

work contracts, agricultural sector engagement documentation, and farmer relationship records remain sealed within the VCL office premises closed since September 13-15, 2024 pursuant to SEBI's interim order;

(67) The Company filed NSE regulatory notices indicating IPO fund deployment to infrastructure vendors, and NSE accepted these filings without objection. NSE's acceptance of fund deployment filings suggests regulatory comfort with disclosures - a finding entirely inconsistent with the SCN's fraud allegation. The convergence of third-party customer confirmation, statutory auditor certification, government GST verification, and NSE's regulatory acceptance establishes conclusively that BM Traders operated as a legitimate infrastructure vendor, not as a fraudulent conduit for fund diversion;

(68) Cressanda Solutions Limited (hereinafter referred to as **"CRSL/ Cressanda"**) has explicitly confirmed receipt of services from VCL which is the strongest disproof of the fraud allegations. Cressanda's response documented that it received IT services/ goods from VCL and made corresponding payments as recorded in ledgers maintained in VCL's books. Most significantly, Cressanda's ledger entries show payment amounts with Tax Deducted at Source ('TDS') deductions totalling ₹0.36 crores, indicating tax-compliant transactions recognized and processed by both parties in accordance with government tax regulations;

(69) The presence of TDS deduction entries in Cressanda's response demonstrates conclusively that both VCL and Cressanda recognized these transactions as legitimate business dealings requiring tax compliance. Government tax authorities would not permit TDS deductions on fictitious or unverifiable transactions; the fact that TDS was deducted and processed indicates that tax authorities accepted the transactional legitimacy. This creates a logical impossibility: if transactions were fabricated as alleged, tax authorities conducting routine verification would have flagged discrepancies and disallowed TDS claims;

(70) VCL's investment of ₹1.66 crores in Turmeric Lifestyle Private Limited (hereinafter referred to as the **"TLPL"**) preference shares represents only

1.3% of total IPO and Rights proceeds which is well below the 5-10% materiality thresholds that typically trigger diversion concerns and is proportionate to standard subsidiary capitalization for hospitality business expansion. The IPO prospectus and Rights issue letter of offer expressly authorized "*General Corporate Purpose*" allocations permitting management flexibility for strategic investments, into which the TLPL investment falls squarely. TLPL's relationship with VCL is disclosed in annual reports as a related-party transaction, with Noticee No. 2's directorship in TLPL (83.77% shareholding) documented and known to SEBI through regulatory filings;

(71) Varanium Lifestyle Private Limited (hereinafter referred to as the **"VLPL"**) is not a shell company but rather an independent lifestyle and fashion publically announced e-commerce business firm generating ₹74.77 crores in FY 2022-23 and 25-30 operational employees. The payments aggregating ₹4.48 crores made to VLPL represent consideration for backend IT services, cloud infrastructure support, administrative services, and operational platform support rendered by VLPL to VCL in the ordinary course of business, against duly raised invoices and recorded in the books of accounts under revenue/expense heads as applicable;

(72) Varanium Earth Private Limited (hereinafter referred to as the **"VEPL"**) operates as an agriculture and agro-technology service entity with ₹9.13 crores in revenue in FY 2023 and has 25-30 operational employees. Administrative remediation through enhances quarterly RPT disclosures is appropriate response to disclosure allegations;

(73) VNPL invested ₹10.12 crores in infrastructure deployment services, representing legitimate operational necessity for group company network infrastructure. The entity's documented operational functions justify capital allocation within disclosed General Corporate Purpose framework;

(74) Statutory auditor A.K. Kocchar & Associates issued unqualified opinion on FY 2022-23 consolidated financial statements without fraud qualifications or revenue recognition concerns. The auditor examined related-party transactions during audit procedures and certified financial statements

reflecting RPT disclosures. Auditor's unqualified opinion creates presumption that related-party transactions are legitimate absent evidence of auditor collusion or professional negligence;

(75) All allegations pertaining to RPT may be reclassified from '*fraudulent concealment*' to '*RPT disclosure compliance gap*' for following reasons:

a. All RPTs are recorded in consolidated financial statements with recipient entities identified in annual report notes and all fund flows documented in bank statements, rendering '*concealment*' allegations factually unsustainable;
b. Recipient entities are operational subsidiaries;
c. Legitimate business purposes are established for all transfers, i.e., VLPL provides group diversification/operational support, VEPL enables ESG/corporate social responsibility compliance, VNPL manages critical infrastructure deployment, and TLPL represents property asset investment through documented business activities;
d. Independent third party vendor confirmations support transaction reality;
e. Statutory auditor issued an unqualified opinion on FY 2022-23 financials;
f. SEBI itself possesses direct power and authority to independently verify GST compliance through the GST portal; and
g. All transfers were corporate entity-to-entity with no luxury asset acquisitions, offshore accounts, or personal benefits to Noticee No. 2 identified, contradicting fraud characterization through absence of personal enrichment.

(76) The SCN conflates multiple distinct legal categories that must be separated for proper legal analysis. First, there are disclosure timing gaps regarding quarterly specification of related-party transaction details - these constitute administrative governance violations subject to remediation under LODR Regulations. Second, there are characterizations of transactions as "diversions," "fronts," or "shells" – which require affirmative proof of fraudulent intent and absence of legitimate business purpose. Third, there are procedural non-compliances by related entities (such as VLPL's failure

to respond to summons) – which cannot be attributed personally to Noticee No. 2 under the separate legal entity doctrine. Fourth, there are allegations of fund flow impropriety – which are contradicted by bank statements, vendor confirmations, and third-party verification. The SCN improperly bundles all these distinct legal issues into a single "*fraudulent RPT concealment scheme*," thereby obscuring the fact that documented, bank-verified, auditor-certified, and customer confirmed transactions cannot simultaneously constitute fraud;

(77) SEBI's investigation report explicitly concludes: "*No linkage identified between BM Traders and Noticee No. 2's personal account control patterns*". This finding establishes that BM Traders operated independently without personal account control by Noticee No. 2. Fund flows constitute arm's-length business transactions rather than personal looting. BM Traders functions as a genuine separate vendor entity, not as a Noticee No. 2-controlled shell;

(78) The absence of specific construction invoices cannot prove non-performance and infrastructure development services rendered through proprietorship management structures often rely on general contractor invoicing, not granular sub-contractor documentation;

(79) Regulation 23(6) of the LODR Regulations, governs Related-Party Transaction pre-approval and disclosure and requires that related parties be identified "*as known at the time of transaction*". This language establishes a temporal limitation, critical to understanding prospectus obligations, i.e., companies cannot be required to identify vendors who are unknown at the time of prospectus preparation;

(80) Examining the actual prospectus filed by VCL reveals that the Company disclosed two critical fund allocation categories directly relevant to BM Traders' engagement. First, the prospectus allocated ₹36.37 crores to "*Working Capital*" purposes, explicitly permitting "*management flexibility for vendor management and operational expenditures*". Second, the prospectus allocated ₹8.59 crores to "*General Corporate Purpose*," explicitly permitting deployment for "*strategic initiatives*" and management-

directed projects. Both allocations expressly authorize vendor payments without requirement of advance vendor naming;

(81) The SCN states: "*BM Traders was not mentioned in the prospectus*". However, the absence of a specific vendor name does not establish prospectus violation when the transaction falls within disclosed fund categories;

(82) The SCN's allegation that BM Traders should have been disclosed as a Related-Party in annual reports presupposes that BM Traders met the statutory definition of "*related party*" under the Section 2(76) of the Companies Act, 2013. This presupposition is incorrect as the Companies Act establishes a precise statutory definition of "*related party*" which does not encompass all vendors or service providers; rather, it encompasses only entities meeting specific criteria of control, ownership, directorship, family relationship, or common management. BM Traders did not satisfy any statutory criterion for "*related party*" status. The SCN commits a logical fallacy by characterizing BM Traders as an "*undisclosed related-party transaction*" without first establishing that BM Traders meets any statutory criterion for related-party status;

(83) Cressanda confirmed receipt of IT services and goods from VCL and made payments as documented in the ledger maintained in VCL's books. The company confirmed the transaction amount of ₹21.07 crores and provided detailed business relationship documentation corroborating the service delivery;

(84) The mismatches between the ledger entries of CRSL and VCL, as alleged in the SCN, are entirely consistent with standard intercompany accounting reconciliation practices and do not evidence fraudulent entry. Examination of the actual ledgers demonstrates perfect alignment on core transaction elements, indicating genuine business transaction recording rather than fraudulent concealment;

(85) Examining the ledgers from both parties' perspectives reveals perfect alignment on all core transaction elements. Both parties recorded identical service amounts (₹21.07 crores), identical TDS deductions (₹0.36 crores),

and tracked the identical outstanding receivable balance (₹0.86 lakhs). This perfect alignment across independent ledgers maintained by two separate entities - one as service provider and one as service recipient - constitutes affirmative proof of legitimate transaction recording;

(86) The SCN alleges that bank statements show payment received from CRSL but the entry was recorded in the ledger of ATL evidencing misclassification. The said allegation reflects misunderstanding of standard of month-end accounting reconciliation procedure. When a payment is received from a customer (CRSL in this instance), the transaction workflow operates as follows: the payment is received and recorded in the bank statement with standard banking reference information; pending receipt of detailed invoice documentation or service categorization data, the accounting department may initially record the entry in a holding ledger account (in this instance, the ATL account) pending proper categorization; once all supporting documentation is received and verified, the amount is reclassified through journal entry to the correct customer ledger (CRSL) during month-end consolidation. This represents standard accounting procedure, not fraudulent concealment. The fact that the payment appears in bank statements constitutes objective proof that the fund was received by VCL;

(87) The allegation in the SCN that the transfer of ₹1.66 crores to TLPL was in violation of the LODR Regulations is factually and legally unsustainable for following reasons;

a. Characterization of different investment documentation as evidence of fraudulent intent reflects misunderstanding of standard corporate finance practice. At the IPO prospectus stage (September 2022), VCL disclosed "*General Corporate Purpose*" allocation of ₹8.59 crores, expressly permitting "*strategic investments*" and "*group company capitalizations*". In the FY 2022-23 Annual Report (filed May 2023), the Company recorded the TLPL investment as "*Compulsory Convertible Debentures (‘CCDs’)*," reflecting the initial contemplated investment vehicle for subsidiary capitalization. When SEBI subsequently questioned the transaction, the Company clarified to NSE (during FY 2023-24) that the actual investment structure was "*advances*" to subsidiary. TLPL's own books ultimately recorded the investment as "*preference shares*" allotted to VCL, representing a more tax-efficient capitalization structure;

b. Investment structure flexibility is standard in corporate finance and does not constitute fraud and companies frequently contemplate multiple capitalization structures during planning phases. NSE's acceptance of the clarification '*without objection*' affirmatively demonstrates that regulatory authorities found the refinement administratively acceptable and not fraudulently misleading. The progression from planned structure (CCDs) to initial accounting treatment (CCDs) to actual structure (preference shares) represents transparent disclosure of actual structure, not concealment.;

c. No investor prejudice resulted from the investment structure refinement and the total investment amount remained constant at ₹1.66 crores across all documentary iterations;

d. The SCN treats administrative refinement of investment documentation as evidence of fraudulent intent. However, evolving investment structure documentation during corporate due diligence represents standard practice, not fraud;

e. The IPO prospectus explicitly disclosed allocation of ₹8.59 crores to "*General Corporate Purpose*", stating this category includes "*strategic investments*," "*corporate initiatives*," "*working capital management*," and "*group company support*". This language is expansive and permissive, not restrictive. Courts have consistently held that "*general corporate purpose*" language permits substantial management flexibility in capital allocation. The regulatory framework recognizes that prospectuses cannot enumerate every potential corporate activity, thereby requiring management discretion within disclosed categories;

f. TLPL's non-response to SEBI summons does not establish personal liability of Noticee No. 2 nor does it prove shell entity status. TLPL is an independent company incorporated on April 22, 2021, with separate legal personality distinct from VCL. TLPL maintains independent management and operational control through entities separate from Noticee No. 2's direct control;

g. Non-response to regulatory summons represents a procedural non-compliance and does not establish that the entity lacks legitimate business operations;

(88) Noticee no. 2 should have disclosed the TLPL investment as RPT in quarterly filings but the comprehensive annual disclosure was achieved and were incorporated in the VCL's Annual Report for FY 2022-23;

(89) The SCN's allegation focuses on disclosure timing deficiency - advance NSE notification was not filed per Regulation 23(6) of the LODR Regulations pre-approval requirements. This timing gap represents administrative compliance deficiency remediable through governance enhancement, not fraudulent concealment. The investment was disclosed comprehensively in annual report with full transaction details;

(90) The allegation that the funds transferred to VEPL were unauthorized fails to account for the strategic Environmental, Social and Governance ('ESG') imperative in 2022-23 regulatory environment, documented revenue generation by VEPL and explicit prospectus authorization for '*strategic initiatives*' within the General Corporate Purpose allocation;

(91) The SCN implicitly asserts that VEPL generated "*minimal revenue*" indicating shell entity status. However, ₹9.13 crores (revenue generated in FY 2023) in documented revenue is incompatible with shell company characterization. Shell companies by definition generate minimal or zero revenue, maintain no operational employees, hold no real assets, and exist solely as paper entities. VEPL's documented revenue, employee base, and operational growth trajectory affirmatively establish legitimate business operations. The growth trajectory from ₹3.50 crores (FY 2022) to ₹9.13 crores (FY 2023) demonstrates financial self-sufficiency and operational sustainability;

(92) The Hon'ble Supreme Court, in the matter of ***Indian Nut Products Limited Vs. Union of India***[4] has held that the regulatory authorities cannot attribute collective corporate failures to individual directors absent specific proof of personal wrongdoing. The Supreme Court has held that "*corporate governance lapses, procedural deficiencies, or documentation gaps may warrant administrative remediation and governance penalties, but cannot constitute personal fraud liability for directors absent proof of personal direction, personal direction, personal knowledge, and personal deceptive intent*";

(93) Noticee no. 2 provided personal guarantees to institutional lenders and financial institutions which indicates that financial institutions after conducting due diligence on Company creditworthiness accepted Noticee no. 2's personal exposure as credit enhancement;

(94) Noticee No. 2 preserved complete financial statements from multiple fiscal periods, enabling regulatory review and comparative analysis. The fact that these preserved statements were examined by statutory auditor and certified without fraud qualifications suggests that accounting records were sufficiently reliable to satisfy independent professional review. Records of Board Meeting minutes, NSE filings, Audit Committee meeting records etc., reflect key decisions were discussed in a collective governance context and were not made unilaterally by Noticee no. 2;

(95) The Supreme Court, in the ***SEBI Vs. Ketan Parekh*** matter has held: *"A person aware of committing fraud will typically avoid regulatory scrutiny, decline personal meetings, and provide incomplete documentation. Conversely, transparency and cooperation indicate absence of guilty knowledge.";*

(96) The SCN has, incorrectly, labelled governance matters as fraudulent scheme. The SCN characterizes informal board meetings as evidence of fraudulent concealment scheme but a small emerging company's board meetings may be less formal than established corporation board meetings

[4] (1994) 4 SCC 269

without indicating fraudulent intent. Informality in board meetings cannot mean absence of board function and such informality cannot prove that Noticee no. 2 fraudulently directed false statements;

(97) The fact that regulatory filings were dictated by Noticee no. 2 with no independent factual verification before submission to stock exchanges reflects normal hierarchical corporate structure wherein the Company Secretary executed Noticee no. 2’s directions in capacity of the Compliance Officer. Company Secretary’s role was to ensure that directives are properly documented and submitted to regulators and not to independently verify factual accuracy of Noticee no. 2’s business judgment. Procedural verification failure does not constitute fraudulent intent by Noticee no. 2;

(98) Company Secretary is responsible for ensuring regulatory compliance and proper documentation of decisions. Company Secretary is not responsible for independent verification of business facts that are within Noticee No. 2's operational responsibility. If Noticee No. 2 states that company completed infrastructure deployment, Company Secretary's responsibility is to ensure that statement is properly documented and timely disclosed and not to independently verify facility existence;

(99) The fact that Noticee no. 2 was co-signing cheques above ₹50,000 with the CFO reflects normal internal control structure, employing segregation of duties principle, to ensure that no single individual can authorize major transactions without oversight. The fact that Noticee no. 2 had centralized authority does not prove a fraudulent conspiracy and internal control structures with Noticee no. 2 as the final approver are standard in emerging companies where the founder maintains the operational control;

(100) If the CFO was intentionally excluded from knowledge regarding certain transactions which were allegedly fictitious, he should have raised concerns with the Board and the Audit Committee regarding the same;

(101) The SCN has failed to prove that (a) statements were false as of date made, (b) Noticee No. 2 knew falsity, (c) Noticee No. 2 made statements with intent to deceive, and (d) investors relied and suffered loss and the Noticee cannot be expected to rebut these vague allegations. The investigation was

initiated based on media reports, not investor complaints. This distinguishes VCL from typical fraud prosecutions and suggests that investors did not perceive statements as false at time of disclosure. If the revenue was actually '*fictitious*', the investors would have filed complaints with the regulatory authorities and the SCN's failure to identify investors who had relied upon the allegedly false statements renders the SCN legally unsustainable;

(102) The detailed analysis of stock price patterns directly contradicts the SCN's alleged "*fraudulent inducement*" of investors. In terms of ***SEBI v. Ketan Parekh*** judgement, when fraudulent false statements induce investor purchases at inflated prices, the stock price movement shows characteristic pattern: artificial price inflation followed by market discovery and price collapse. NSE initiated formal inquiry into the Company's operations and financial disclosures which became a public knowledge but the stock price declined modestly (approx. 10-15%) during January – April 2024 period. If investors believed the allegation of fictitious financials, upon learning of NSE inquiry, stock would have experienced dramatic collapse (50-80%) immediately upon inquiry disclosure, as market would reprice shares to reflect near-zero company value. On the contrary, the stock price maintained relatively stable and near peak levels despite regulatory inquiry. The stock price crashed substantially only after issuance of the interim order;

(103) The SCN alleges that the misleading corporate announcements caused share price manipulation but provides no specific announcement – price correlation analysis. The allegation does not establish that the announcements were false at the time when they were, that the Noticee no. 2 was aware about the falsity, the announcements misled the investors and the price fluctuations were caused by announcement falsity;

(104) The SCN vaguely alleges "*misleading announcements*" but does not identify specific announcement text, specific falsity, or specific investor reliance. The SCN references "*business acquisitions*" and "*partnerships*"

that "*did not translate into visible financial growth*" but does not cite specific announcement dates or specific language alleged to be false;

(105) The 88.5% stock price appreciation from IPO price (₹122) to peak (₹230) resulted from multiple legitimate market factors that SCN has not excluded. Factors such as genuine operational growth, employee base expansion, customer acquisition etc., which were relevant factors in appreciation of the price have not been taken into account by the SCN;

(106) In terms of ***SEBI v. Ketan Parekh***, absence of fraudulent intent or absence of investor reliance and loss is sufficient to defeat fraud allegation entirely. The Supreme Court has established that fraud requires proof of all essential elements as noted above and failure on any single element defeats allegation;

(107) The Hon'ble Supreme Court in the matter of ***S. Jaishankar Vs. State of Kerala***[5] (hereinafter referred to as the **"S. Jaishankar case"**) has held that "*When regulatory authority alleges fraudulent conduct, authority bears burden to prove fraud affirmatively. Respondent cannot be required to prove absence of fraud through negative proof. This would be burden reversal violating natural justice."*. The SCN's approach in alleging fraud without specific proof and expecting the Noticee to rebut the allegation violates the principle established by the Supreme Court. Similar stance has been taken by the Supreme Court in the matter of ***Indiran Vs. State of Tamil Nadu***[6] (hereinafter referred to as the **"Indiran case"**);

(108) In ***Ratilal Vs. State of Bombay***[7](hereinafter referred to as the **"Ratilal case"**), the Supreme Court has established the presumption of regular conduct, i.e., when documentary evidence shows normal business procedures and regular corporate governance, courts presume conduct was regular, in absence of specific evidence of irregularity. VCL's documentary evidence shows all hallmarks of a regular business conduct. Board meetings were conducted regularly, financial statements were

[5] (2019) 6 SCC 476
[6] (1996) 3 SCC 231
[7] (1954) SCR 1055

audited by the statutory auditor, regulatory filing were made in a timely manner etc.;

(109) The SEBI Act recognizes distinct violation categories triggering different procedural requirements and remedies. Category A violations encompass fraudulent violations under Sections 11B and 15H, characterized by intentional deception of investors, demonstrable investor harm, and manifest market manipulation intent. Category A prosecution requires enhanced penalties including director disqualification, indefinite market ban, and potential criminal referral. Category B violations encompass administrative violations under Sections 11 and 15A, characterized by procedural non-compliance, governance deficiency, and disclosure timing gaps. Category B prosecution involves administrative penalty and remediation orders requiring enhanced procedures. Since the SCN fails to prove the fraud elements, allegations must be reclassified from Category A (fraud) to Category B (administrative violation), triggering fundamentally different remedial regime with different penalties and restraint periods;

(110) The statutory language of Section 12A of the SEBI Act provides: "*SEBI shall have power to issue directions...*" The operative word "*power*" connotes discretionary authority constrained by statutory boundaries. The regulations themselves (Regulation 3, SEBI PFUTP Regulations) define fraudulent and unfair trade practices as "*conduct by any person, directly or indirectly, which violates the integrity of the securities market*." The critical qualifier "*directly or indirectly*" indicates that the conduct must have a causal nexus to securities market operations, not merely involve a company whose securities are traded;

(111) Hon'ble Supreme Court, in the matter of ***Union of India Vs. Nritya Guna Mudgal***[8] has held that "*When statute grants regulatory authority to an administrative body, such authority is bounded by the language and intent of the statute. Exercise of authority beyond the scope granted by statute renders action ultra vires and liable to judicial quashing. Regulatory*

[8] AIR 2008 SC 2154

overreach, even when motivated by legitimate protective objectives, constitutes abuse of regulatory discretion.”;

(112) SEBI's assertion of PFUTP jurisdiction over matters properly within contract law, corporate governance law, or tax law domains constitutes jurisdictional overreach that prevents specialized regulatory regimes from functioning appropriately;

(113) VCL generated revenue by providing genuine infrastructure services that Amtelfone commercially required and the relationship between VCL and Amtelfone represented a genuine commercial demand, not circular or self-dealing transactions;

(114) Directorate General of GST Intelligence (‘DGGI’), a government authority implicitly verified Amtelfone revenue legitimacy by accepting VCL's GST filings without raising objections or audit notices regarding Amtelfone revenue. GST authority examination of supporting documentation (invoices, delivery proof, payment evidence) and acceptance of GST compliance provides independent government verification that revenue was supported by legitimate transactions;

(115) VCL issued invoices totalling ₹392.11 crores with documented bank deposits of approximately ₹318-327 crores (81-83% recovery rate), consistent with normal business operations involving extended payment terms and outstanding receivables. Collection rate is consistent with technology infrastructure services industry norms (75-90% within fiscal year) and inconsistent with fictitious revenue patterns (which would show either 0% or 100% collection);

(116) Allegations regarding facility operational status (Edge Data Centres and Educational Learning Centres) conflate operational engineering matters with securities fraud, applying an inappropriate legal framework to what are fundamentally business operations and infrastructure deployment questions. The SCN fails to distinguish between (1) engineering questions of facility commissioning, equipment deployment, and operational readiness; and (2) securities law violations requiring proof of deceptive statements to investors;

(117) All three facilities, i.e., Sawantwadi Edmission Centre, Panjim and Sawantwadi Edge Centres, contained operational infrastructure components enabling service delivery. The Statutory Auditor, CA Hitesh Kumar, had explicitly confirmed personal site visits to VCL facilities;

(118) NSE site visit remark mentioned in SCN, explicitly states: "*Entity Edge Centre was not available. However, the entity Varanium was found operating on this location. The staff mentioned that the entity is operating there since 1 year and the founder is Mr. Harshawardhan*." NSE report directly confirms that "*the entity Varanium was found operating*" at the Panjim location consistent with December 2022 commissioning disclosed in Annual Report. Critical distinction between brand name unfamiliarity ("Edge Centre" terminology) and underlying operational entity confirms facility operational status. NSE conducted site visits as part of listing compliance procedures and the NSE site visit reports constitute independent third-party verification. NSE reports documented facility infrastructure and operational status without allegation of facility non-existence;

(119) Hon'ble Securities Appellate Tribunal (hereinafter referred to as the **"SAT"**) appeal evidence (Kalpesh Acharekar appeal, Exhibit B) explicitly confirms that all documented employees receive salaries via official bank transfers from company accounts and file Income Tax Returns with relevant tax authorities. ATL provided detailed infrastructure quotation (Enclosure herewith Hon'ble Securities Appellate Tribunal ('SAT') appeal dated June 15, 2022) specifying itemized infrastructure components for the three Edmissions Centres;

(120) SEBI's observation regarding electricity consumption (6 units in November-December 2023; 2,450 units in the subsequent cycle) actually supports operational scaling interpretation rather than non-operation allegation. November-December 2023 minimal consumption (6 units) represents testing and initial launch phase consistent with facility commissioning; subsequent cycle 2,450-unit consumption (40x increase) represents ramped-up tech-intensive operations consistent with data centre

operational deployment. This progression pattern is standard for data centre commissioning and deployment phases, not evidence of fictitious operations;

(121) The Company issued a press release on March 21, 2024, announcing the "*Launch of EDC Centre, Mumbai*," and a business update on November 8, 2023, regarding employment generation at its Sawantwadi and Kudal facilities. These events were covered by newspapers. Such public announcements and media coverage serve as strong corroborating evidence of genuine facility commissioning, as no prudent company would risk severe reputational damage and regulatory scrutiny by announcing fictitious facilities to the public and media. The commissioning of the data centres were public events which were attended by high ranking government officials;

(122) Presence of 6 employees at the Panjim centre is consistent with the low labour operational model of automated data centre requiring minimal human intervention for computing infrastructure operation. Staff count does not reflect total operational capacity or service delivery capability but rather on-site human resource requirement;

(123) Physical facility existence and operational capability are affirmatively documented through convergence of independent evidence sources including statutory auditor site visits, NSE site visit confirmations, GST authority acceptance of operating expenses, comprehensive documented workforce across 127-157 employees with income tax verification etc.;

(124) SEBI may acknowledge regulatory causation and take following steps to restore fair legal process:

   a. Refer the Company to NCLT for administration under Insolvency and Bankruptcy Code; or
   b. Temporarily and limitedly relax Noticee no. 2's restraint order for restoring company governance; or
   c. Extend SCN response timeline from 30 days to 120+ days to permit the Company to pursue shareholder convening process and enable replacement of directors through shareholder governance process.

(125) The IPO proceeds were utilized strictly in accordance with the prospectus authorization within regulatory frameworks. The IPO prospectus was filed with NSE authorized deployment for three primary purposes, i.e., deployment of ₹23.40 crores for setting up 3 containerized EDCs over an 18-24 months' deployment period, deployment of ₹8.40 crores for rollout of 3 Edmission Flagship Digital Learning Centres ('EDLCs') over an 18-24 months' deployment period and deployment of ₹8.59 crores for general corporate purpose. This tri-partite authorization structure underwent three independent verification and approval layers, i.e., approval from Board of Directors, Statutory Auditor Certification, and Merchant Banker approval;

(126) Regulation 24(2) of the ICDR Regulations mandates that companies must deploy the proceeds strictly within the stated objects and the said regulation expressly permits '*staged deployment*' and '*retention pending deployment*' without constituting material deviation from stated objects provided the following three conditions are satisfied;

a. Funds must be held with scheduled commercial banks to ensure that the funds remain within regulated financial system rather than being diverted to uncontrolled entities;
b. Deployment must continue demonstrably towards the stated objects throughout the retention period to prevent indefinite retention of funds unrelated to prospectus purposes;
c. Deployment timeline must align with industry standards for project category;

All three aforesaid conditions were satisfied by VCL which shows complete compliance with SEBI's staged deployment framework;

(127) Statement of deviation filed by the Company was in terms of regulation 32 of the LODR Regulations and included the requisite board and audit committee approvals. In terms of the decision of the Hon'ble Supreme Court in the matter of ***State of Punjab Vs. Davinder Singh***[9], regulatory filings to government authorities carry presumption of accuracy absent

[9] (1977) 4 SCC 606

contrary proof. The ‘*No Deviation*’ certificate was filed with NSE, which is a government regulated stock exchange and therefore the presumption of accuracy applies with force to the ‘*No Deviation*’ filing. Further, in light of Doctrine of Estoppel, SEBI cannot simultaneously accept the NSE filing (which NSE accepted without objection on November 17, 2023) and later allege that the same filing was false when made;

(128) The receipt and processing of IPO proceeds aggregating ₹40.39 crores is fully documented through contemporaneous bank statements establishing clear fund flows from inception to deployment. IPO proceeds of ₹40.39 crores were transferred from the Public Issue Escrow Account (ICICI Bank Account No. 000405136331) to the Company's Primary Operating Account (ICICI Bank Account No. 344905000113O), with bank statement narration explicitly confirming "*IPO Proceeds Transfer*";

(129) Avance Technologies' response dated (placed at Annexure 8 of the SCN) constitutes affirmative confirmation of transaction legitimacy, contrary to SCN's characterization that Avance "*denied transactions*." Avance has explicitly stated: *"The copy of the original proposal and detailed work order submitted to Varanium Cloud Limited (VCL) is attached with Draft SAT Appeal. This was reissued in June 2022 with no changes pursuant to their request."* This language constitutes express confirmation of work order engagement and service delivery, not denial. Avance further explained: *"we were later informed that the aforementioned projects would be executed by VCL directly and, hence, we were not part of the actual project execution. We consequently, do not have any supporting documents relating to the execution of the projects."* This explanation reflects ordinary business model modification, i.e., change from vendor-execution to client-execution, i.e., which is common in infrastructure projects where client opts for direct equipment procurement and installation through own contractors;

(130) Non-disclosure of RPTs represents administrative timing and sequencing issue and not fraudulent concealment. Schedule III Part A of the LODR Regulations establishes tiered disclosure framework distinguishing between Tier I [Aggregate Annual Disclosures under regulation 34(3)] and

Tier 2 [Quarterly announcement under regulation 30(5)]. VCL has fully complied with Tier I requirements by disclosing comprehensive RPT details in audited annual reports. Quarterly Tier 2 disclosure timing gap, which the Noticee no. 2 acknowledges, constitutes administrative compliance issue remediable through enhanced procedures and not criminal fraud;

(131) Individual RPT transactions were substantially below ₹100 crores quarterly announcement threshold established under regulation 30(5) of the LODR Regulations. The largest transaction (VLPL service fees at ₹23.36 crores per annum) represented only 6.09 percent of annual revenue, falling far below ₹100 crore materiality standard. Further, all material RPTs reflect market-based pricing for comparable services within competitive ranges established through industry benchmarking;

(132) Transactions with VLPL, VNPL and VEPL were undertaken in ordinary course of business and at arm's length and the same is supported by documentation including service agreements, invoices, GST records reviewed by DGGI and accounting entries etc. Further, the transactions with VNPL, VLPL, TLPL and VEPL were approved by the Board of the Company. All Board approved transactions were further reviewed by the Audit Committee prior to financial statement publication;

(133) Under the administrative law doctrine of substantial compliance, referenced in the landmark Supreme Court decision ***Mafatlal Industries Ltd. v. Union of India***[10], regulatory disclosure obligations are deemed satisfied when complete disclosure occurs through any approved regulatory mechanism, even if the timing or format differs from alternative mechanisms;

(134) VEPL transactions were disclosed comprehensively, with complete details, auditor certification and balance sheet integration through the annual report mechanism and the transactions were not concealed;

(135) No investor lacked material information regarding related-party transactions at any point when meaningful investment decisions were being made. All investors received identical information upon annual report

[10] (1997) 5 SCC 536

publication. No trading advantage existed based on privileged or asymmetric related-party transaction information access. Information was provided by independent auditors and governance committee representatives, not solely by management statements, establishing third-party verification and credibility;

(136) The ₹23.36 crore annual fee (approximately ₹1.95 crores monthly average) for comprehensive backend cloud services paid to VLPL represents arm's length pricing when assessed against multiple verification standards. Enterprise cloud services pricing, documented in Gartner Cloud Services Pricing Report 2022, establishes that tier-1 cloud service providers charge between ₹1.5 to ₹2.5 crores monthly for large-scale infrastructure support to enterprise customers. VCL's ₹1.95 crores monthly rate falls directly within this published market range, establishing pricing consistency with market standards;

(137) The ₹5.90 crore annual fee (approximately ₹0.49 crores monthly average) for environmental and social governance program services paid to VEPL represents arm's length pricing when assessed against comparable market standards. Corporate ESG consulting and program management services, documented in Bain & Company ESG Services Pricing Index (2023), establishes that specialized ESG consultants charge between ₹0.3 to ₹0.6 crores monthly for major company ESG program management. VCL's ₹0.49 crores monthly rate falls directly within this published market range;

(138) SCN's implication that arm's length pricing was manipulated to "*siphon funds*" or facilitate "*circular transactions*" is factually contradicted by documentary evidence and logical analysis. The fundamental logical flaw in the SCN's allegation is: if pricing were artificially inflated by VCL to siphon funds to related parties, funds would necessarily flow out of VCL to related parties at inflated prices. However, the actual transaction structure shows substantial net cash inflow to VCL from related parties: VCL received ₹23.36 crores from VLPL for cloud services (cash inflow), received ₹5.90 crores from VEPL for environmental services (cash inflow), and provided ₹11.80 crores loan to VNPL (loan asset to VCL, repayable with interest);

(139) During the entire FY 2022-23 audit period, the auditor found no irregularities in related-party transaction pricing or documentation, and no concerns regarding arm's length pricing were raised in auditor findings. If transfer pricing were materially inflated, consolidation elimination would create balance sheet distortions that auditors would identify;

(140) VCL's Audit Committee satisfied each statutory responsibility established under regulation 23 of the LODR Regulations: (1) maintained updated schedule of related parties and classified all group company transactions as related-party transactions; (2) reviewed and approved all significant RPTs before execution with formal documentation in committee minutes; (3) reviewed pricing methodology, examined comparable market analysis, and assessed pricing reasonableness before approving transactions; (4) received quarterly updates on related-party transaction activity and compliance with approved pricing terms; and (5) certified to the Board that all related-party transaction disclosures in financial statements are complete and accurate;

(141) In terms of circular no. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/135 issued on September 12, 2025, transactions not exceeding ₹1 crore are fully exempt from detailed disclosure requirements, thereby, recognizing that transactions below specified materiality thresholds do not require the same disclosure intensity as material transactions;

(142) The absence of any GST audit notice, tax demand, or show-cause communication regarding VCL's CRSL supplies constitutes implicit government verification that the transaction alignment passed automated cross-matching procedures. If VCL had fabricated CRSL supplies in GSTR-1 filings while CRSL had not corroborated entries in GSTR-2, the government system would have automatically flagged the discrepancy and issued audit notices;

(143) VCL’s transactions with CRSL are supported by five independent verification layers, namely:

a. Ledger records document systematic recordings of the service transactions;

b. Bank statements document fund transfers from VCL’s account to CRSL;
c. CRSL’s managing director, Mr. Arun Tyagi, has independently confirmed the business relationship and service receipt;
d. VCL’s GSTR-1 filings for FY 2022-23 document outbound supplies with the absence of GST audit notices indicating successful cross matching with CRSL’s GSTR-2 filings;
e. CRSL’s continuous listed status on NSE and BSE throughout FY 2022-23 subjected CRSL to permanent regulatory oversight with any shell company activity or fraudulent transactions immediately exposed through exchange monitoring procedures.

(144) NSE's observations confirm the physical presence of infrastructure facilities at VCL's disclosed EDC locations. NSE's observational confirmation of facility existence and operational readiness constitutes definitive proof that equipment was physically delivered and installed by ATL. If ATL had not supplied equipment, and if VCL had fabricated procurement payments to ATL, then the facilities would not exist at the disclosed locations for NSE to observe. Noticee No. 2 respectfully submits that ATL provided three containerized Edge Data Centre units configured with specialized infrastructure for data centre operations, with transaction documentation establishing the pricing analysis framework. ATL’s quotation dated June 2022 (referenced in VCL's SAT Appeal filing, Exhibit B, filed on June 28, 2024 with the Supreme Court Appellate Tribunal) established pricing for the three containerized EDC facilities;

(145) The categorization of transfer of₹32.73 crores in the personal account of the Noticee no. 2 as ‘*personal enrichment*’ or ‘*fraudulent diversion*’ is unsustainable and legally untenable for following reasons:

a. compensation records documented through 42 salary files spanning 19 months verify legitimate salary components;
b. remaining funds constitute Board-authorized working capital advances explicitly disclosed in the Rights Issue prospectus and approved by shareholders through Electronic General Meeting

c. subsequent fund redeployment documentation establishes that ₹119.17 Crores were systematically deployed to identified infrastructure vendors within 30-60 day operational cycles

d. regulatory frameworks governing management advances explicitly authorize such transfers for companies with decentralized operational structures; and

e. absence of personal asset accumulation, overseas fund transfers, or luxury acquisitions conclusively contradicts any fraud characterization.

(146) The salary paid to Noticee no. 2 was not concealed from tax authorities and was formally disclosed across multiple regulatory mechanism. The statutory auditor identified remuneration paid to Noticee no. 2 in the Directors' Remuneration schedule, income tax filings documented the salary income reporting and TDS certificate maintenance, corporate regulatory filings with Ministry of Corporate Affairs ('MCA') itemized remuneration paid to the Noticee no. 2 etc.;

(147) The fact that outbound deployments (₹119.17 Cr) exceed inbound receipts under scrutiny (₹32.73 Cr) on cumulative basis indicates that Noticee No. 2's account may have received additional operational funds beyond the specific ₹32.73 Crore transfer under question in the SCN, all of which were deployed to vendor services. This pattern is entirely consistent with temporary working capital advance mechanism and entirely inconsistent with fraudulent personal retention;

(148) VCL's account transfer occurred with prospectus disclosure of management capital advances and there is no allegation that board authorization was not taken. Funds were not retained personally in the bank account of Noticee no. 2. There is no evidence to establish fraudulent intent behind the alleged transfers and no harm has been caused to the investors;

(149) Inability of the KMPs to recollect transaction details from memory during interrogation conducted 7+ months after office closure does not constitute evidence that transactions were unauthorized or fraudulent. Memory loss under such circumstances is logically predictable given procedural

constraints and does not negate independent documentary evidence from third-party sources;

(150) Mr. Kamlesh Jain's testimony describing "*no documentation given w.r.t. sales*" and "*I was informed over phone*" describes documentation gap reflecting incomplete formal paperwork at time of recording but does not describe transaction fabrication. The presence of bank statement cash receipts, Tally ledger entries, GST filing alignment, statutory auditor verification, and Noticee No. 2 authorization direction establishes that underlying commercial substance existed, with documentation gap reflecting procedural incompleteness rather than fraudulent fabrication;

(151) Noticee No. 2's non-cooperation post-July 24, 2024 must be evaluated within constitutional context of criminal jeopardy and right to silence under Indian Constitution [Article 20(3)] and established precedent. A person facing criminal jeopardy possesses constitutional right to remain silent, decline self-incrimination, and exercise legal representation. The rejection of bail in July 24, 2024 represented threshold at which criminal jeopardy transitioned from theoretical to imminent, triggering constitutional right to silence applicability, necessity for legal counsel involvement, and bifurcation of regulatory and criminal proceedings requiring separate legal strategies;

(152) Varanium Cloud INC (the US subsidiary) was validly incorporated as a Delaware corporation on October 26, 2023 with proper documentation. This incorporation was formally disclosed to shareholders and the National Stock Exchange on November 3, 2023, through official NSE announcement. the US subsidiary formation was not a unilateral decision by any individual but a Board-level strategic determination made with full governance authorization. On November 3, 2023, the Board of Directors formally approved the subsidiary formation, establishing that the decision proceeded through proper corporate governance channels with Board oversight and authorization;

(153) The allegation in the SCN that '*… company infused only USD 1000 capital and there are no other borrowings, the scale of business claimed does not*

appear to be true' is not legally and economically sustainable because it assumes a proportional relationship between paid up capital and revenue generation capacity. A company can be validly incorporated with minimal capital and subsequently generate substantial revenue through: (1) debt financing mechanisms including unsecured loans and supplier credit arrangements; (2) equity issuance through subsequent fundraising; and (3) operational cash flow generated through advance subscription payments, prepayments, or distributor model arrangements;

(154) The absence of borrowings does not evidence fraudulent operations but rather confirms legitimate Software-as-a-Service ('SaaS') business model cash flow characteristics. The SaaS business model operates through advance subscription mechanism: customer (Amtelfone) contracts for annual subscription services, makes prepayment in advance, subsidiary receives cash advance, subsidiary retains cash for operational requirements, and subsidiary gradually deploys capital to parent company infrastructure and third-party service providers. This cash flow model eliminates requirement for debt financing and instead produces positive operational cash flow - precisely the opposite of traditional business models requiring working capital borrowing to fund inventory and receivables;

(155) The evidence on record unequivocally demonstrates that: (a) The investment by ATL in Winpro Industries Limited ('WIL') preceded the IPO of VCL by several years and is entirely unrelated to the business of VCL; (b) The Noticee no. 2's formal association with the board of WIL ceased upon his resignation in March 2021, a full 18 months prior to the IPO of VCL in September 2022, a fact duly recorded in public filings with the stock exchanges; (c) The investment amount of ₹20.27 lakhs by ATL in WIL is *de minimis*, constituting a negligible 0.005% of ATL's total assets of over ₹400 crores, and falls far below any regulatory threshold for materiality; (d) The relationship is a transparent and legitimate historical business association, fully disclosed in the public domain, and cannot be contorted into a narrative of fraudulent concealment;

(156) Under SA (Standards on Auditing) 330 - The Auditor's Response to Assessed Risks and related auditing standards applicable to financial statement examination, a formal hierarchical framework establishes the relative evidentiary weight of different documentation types. Tier 1 evidence (highest evidentiary weight) consists of auditor-verified financial statements with professional auditor opinion, representing independent professional certification of financial accuracy. Tier 2 evidence (high evidentiary weight) includes third-party bank statements and regulatory authority filings, representing independent verification through institutions with no incentive to falsify. Tier 3 evidence (medium evidentiary weight) comprises invoices and contracts, which are subject to forgery risk and lack independent verification. Tier 4 evidence (lower evidentiary weight) includes internal correspondence and memoranda, which are subject to manipulation and lack external verification. The Company provided Tier 1 evidence (independent auditor review report from Abdo Solutions), which supersedes and eliminates the necessity for Tier 3 evidence (individual invoices) under established auditing standards;

(157) The allegation that there were zero subsidiary employees (as of March 31, 2024) and the same raised suspicions about sales figures reported for the quarter ended December 2023 is erroneous as revenue generation cannot correlate with employee headcount. A SaaS distributor model specifically contemplates zero direct subsidiary employees because: (1) software and platform delivery occurs through parent company infrastructure (not subsidiary infrastructure); (2) customer relationship management occurs through distributor partners (not subsidiary staff); (3) support and maintenance occurs through third-party cloud providers and outsourced vendors (not subsidiary employees); and (4) subsidiary focuses solely on financial statement preparation and regulatory compliance (administrative function requiring minimal staffing);

(158) The Supreme Court in ***Rupa Ashok Bajaj v. CIT***[11] has held: *"An allegation of fraud cannot be vague, general or conclusory. The party alleging fraud must identify with particularity the false representations, the dates thereof, the parties to whom made, and the consequences resulting therefrom. To do otherwise violates the fundamental principle of natural justice requiring that the respondent be apprised of the case against him."*;

(159) The calculation of "*ill-gotten gains*" amounting to ₹128.77 crores is legally and factually untenable. It fails to distinguish between legitimate market gains and gains attributable to fraudulent activity, disregards the involuntary nature of the sale of a majority of the shares (86%) by a third-party pledgee, contains material calculation errors, and omits the critical analysis of the scrip's fair value, which is a prerequisite for determining any "*artificial*" component in the price;

(160) A rational fraudster orchestrating market manipulation would engineer the scheme to exit positions at peak valuations. Conversely, Noticee No. 2 held shares during peak price (January 13, 2023 at ₹1,523.15 per share) when shares were locked in, yet made no disposals. Instead, the Noticee executed voluntary disposals only 261 days' post-peak, when share price had declined 85-90% to the ₹100-600 range. By holding shares during the aforesaid 261 days' time gap, the Noticee absorbed an estimated notional loss of ₹75-85 per share across millions of shares;

(161) The SCN implies that announcements caused dramatic price rises. However, only 2 out of 25 announcements (8%) resulted in an upper circuit. Crucially, both these instances occurred during the lock-in period when the Noticee could not have derived any benefit from the price rise, further negating the allegation of a scheme for personal gain. Further, substantial portion of the shares sold, and consequently the gains calculated, pertains to the invocation of a pledge by a third-party financial institution, Visagar Financial Services Ltd. An involuntary, forced sale by a third party cannot be construed as an act of "taking advantage" of an artificial price rise as

[11] (2012) 3 SCC 184

part of a fraudulent scheme. Excluding these involuntary sales reduces the alleged gains attributable to the Noticee's voluntary actions by 86%, from ₹128.77 crores to a mere ₹18.27 crores;

(162) The SCN has made no attempt to determine the fair value of VCL's shares at any point in time. Without establishing a fair value baseline, it is impossible to quantify what portion, if any, of the share price was "artificial" and what portion of the gains, if any, were "ill-gotten." It is submitted that based on the DGGI-verified revenues of FY23, a reasonable valuation would place the fair value of the scrip in the range of ₹263-335 per share. As the Noticee sold his shares in the ₹100-600 range, it is entirely possible that many sales occurred at or below the scrip's intrinsic fair value, resulting in no "ill-gotten" gains.

Noticee no. 3 – Mr. Vinayak Vasant Jadhav

10. The submissions made by Noticee no. 3, vide letter dated November 14, 2025 and during the course of personal hearing are summarized as under:

(1) The Noticee has never been involved in any financial, accounting or compliance related decisions of VCL and the role of the Noticee was always technical in nature. The Noticee worked as an IT Manager;

(2) Noticee’s appointment as a director was solely on the discretion of Noticee no. 2, Mr. Harshawardhan Sabale;

(3) The Noticee has never participated in or signed any financial statement, balance sheet, or prospectus knowingly. The DSC was created and operated by Noticee no. 2 and if the DSC has been used to sign any documents, the same has been done without the knowledge or confirmation of Noticee no. 3;

(4) The Noticee had no knowledge and did not gain any benefit from the alleged misstatements and misrepresentations and the Noticee was a salaried employee receiving fixed pay;

(5) The Noticee was not a part of the decision making process and all the financial activities were managed by Noticee no. 2. The Noticee had no

access to the shareholding records or the stock exchange portal and the filings were managed by the Company Secretary and the Promoter;

(6) The Noticee had no role in approving or reviewing RPTs and the Noticee was not aware of any connected transactions between group companies;

(7) The Noticee tendered his resignation on October 1, 2024 after having lost the confidence in the management and functioning of the Company. Noticee no. 2 had been untraceable for months and the Noticee, as an employee, was left to face the consequences without any fault.

<u>Noticee no. 4 – Mr. Mukundan Raghavan</u>

11. The submissions made by Noticee no. 4, vide letter dated November 14, 2025 and during the course of personal hearing are summarized as under:

(1) The Noticee's role in the organization was essentially technical and the Noticee joined the Group as *Head – Networks* on November 3, 2019 at Streamcast Cloud Private Limited which later converted to a public limited company in 2022. The Noticee served as a Senior Technical Employee and was responsible for network design, data-center overlay architecture etc.;

(2) At the request of the management, the Noticee temporarily assumed the title of Chief Financial Officer on the clear understanding that a suitably qualified finance head would be appointed to the Board in due course. The Noticee's acceptance of the title did not change the nature of substantive duties, expertise or day-to-day responsibilities. The Noticee did not exercise decision making authority or operational control over VCL's finances;

(3) All matters pertaining to preparation of financial statements, prospectus, financial disclosures, were handled by Noticee no. 2. Noticee no. 4 had no involvement in preparing, approving or authorizing financial documents or disclosures;

(4) The receipt, utilization and oversight of IPO proceeds were managed by the Managing Directo.r and the finance functions were under his control. Noticee was neither consulted nor involved in decisions regarding the utilization of IPO funds;

(5) During the Noticee's tenure as the CFO (mid-May 2022 to 1 October 2023) Noticee's role continued to be focused on technical operations. The Noticee was not involved in the operational or financial management of Streamcast group companies or related parties, nor was the Noticee responsible for the identification, review or disclosure of related party transactions;

(6) The Noticee had formally requested to be relieved of the additional assignment of the temporary CFO responsibilities in April 2023 on account of age and health reasons, and the Noticee was relieved of the role with effect from 1 October 2023;

(7) The Noticee is around 61 years old and due to health and age considerations. Limited his responsibilities to technical domain. The Noticee has not benefitted from or authorize any dubious or improper financial transactions;

(8) The bank statements of the Noticee for the period October 2018 to March 2024 demonstrate that the Noticee has not derived any undue financial benefit. The Noticee was in employment with the Company from November 3, 2018 to October 1, 2023 and during the said period the Noticee's remuneration consisted solely of salary and increments as an employee;

<u>Noticee no. 5 – Ms. Hetal Somani</u>

12. The submissions made by Noticee no. 5, vide letter dated November 14, 2025 and during the course of personal hearing are summarized as under:

(1) The Noticee's tenure as CS and Compliance Officer commenced on August 2, 2021 and the scope of Noticee's responsibility was primarily administrative and compliance related, including regulatory filings with SEBI, NSE etc.;

(2) The Noticee fulfilled the statutory obligations in convening, facilitating and documenting the meetings. As a CS, the Noticee's role was to assist the management to conduct the Board Meetings, Committee Meetings, General Meetings etc. The meetings were conducted in terms of Companies Act, 2013;

(3) The Noticee's role was to work under the Board's supervision and the Noticee, as a CS, could not have questioned the decision making of the management and the Board, except in cases of non-adherence to Companies Act, LODR Regulations, ICDR Regulations etc. The Noticee had no authority or power to influence business decisions/ investment decisions etc.;

(4) The Noticee had no professional or personal association with Noticee no. 2, except in her capacity as an employee of the Company. The Noticee maintained complete independence in professional conduct and did not participate or endorse any decision taken by Noticee no. 2 which were outside the purview of her designated responsibilities;

(5) The Noticee's role was not to conduct forensic audits or independent verifications of the financial data of the Company and it was limited to facilitating statutory filings including adherence to various applied laws and ensuring procedural compliance. For conducting the Noticee's professional duties, the Noticee had to rely on the management and board approved financials, where were verified, audited and certified by auditors;

(6) The responsibility for the accuracy of financial statements rests with the Board of Directors, the CFO, and the statutory auditors and the role of CS and Compliance Officer is regulatory in nature which includes adherence to the provisions of the Companies Act, 2013, LODR Regulations, and other applicable laws and Statutory filings and procedural compliances related thereto;

(7) There was no negligence, willful misconduct or intentional disregard of duty and the Noticee's reliance on management provided information was consistent with the scope the Noticee's role and aligned with the requirement of prescribed laws. During her tenure, the Noticee did not submit inaccurate or misleading information;

(8) The Noticee was neither authorized nor qualified to audit, certify or validate the authenticity of financial statements. The primary responsibility for the accuracy of financial statements rests with the Board of Directors, CFO, and the statutory auditors;

(9) The Original Shareholding Pattern (SHP) for the quarter ended December 31, 2023 was filed in full compliance with the requirements of the NSE. The data used for this filing was officially provided by the Company's management and carefully reconciled using the Beneficial Position (Benpos) report. It was cross-verified with data received from the Registrar and Transfer Agent (RTA) through both CDSL and NSDL. Based on this process, the filing was accurate and aligned with the RTA records available at the time;

(10) Following the completion of the SHP and other quarterly compliance filings, the Noticee proceeded on scheduled leave starting January 22, 2024. Upon the Noticee's return on February 1, 2024, she became aware through internal communications and NSE updates that a clarification had been submitted by Mr. Sabale, Managing Director of the Company, citing discrepancies in the SHP due to a mismatch in RTA records. On the basis of clarification submitted by Management the Noticee has stated, during investigation to SEBI, that management believes that the reduction in promoter holding is due to mismatch in RTA Records;

(11) Mr. Sabale disputed the Noticee's involvement in the filing of the SHP, alleging that the Noticee had submitted incorrect SHP for the quarter ended 31st December, 2023. Following this, Noticee no. 2 removed Noticee no. 5 from all SHP-related responsibilities;

(12) Subsequent announcements regarding the SHP were made by Noticee no. 2. Noticee's understanding of pledge invocation in promoter shareholding stems from her own analysis and comparison of SHP filing. Upon seeking clarification, the management had informed me that the pledge invocation was triggered due to a technical glitch and that the management was coordinating directly with the concerned exchange;

(13) The Noticee had no means to independently verify any developments related to the pledge or shareholding changes;

(14) Board approvals were obtained for loans to related-party entities such as VNPL and the Streamcast group. These were documented and disclosed as per regulatory requirements. The Noticee had no knowledge or access

to information regarding transactions with ATL or BM Traders, nor were these entities discussed in board meetings or reflected in the certified documents provided to the Noticee. The Noticee was not involved in the financial transaction of the Company and was not made aware of any such transactions;

(15) The Noticee did not raise concerns about deviations from the IPO's stated objectives because the utilization filings were supported by auditor certificates and board-approved documentation;

(16) The announcement pertaining to proposed acquisition of FTPL was made by the management of the Company and a Letter of Intent ('LoI') was provided by the Company to the Noticee in support of the said announcement;

(17) In terms of decision of the Hon'ble SAT in the matter of ***V. Shankar Vs. SEBI***[12], the CS cannot be expected to re-examine the veracity of the documents certified by the statutory auditor and Board of Directors.

<u>Noticee no. 6 – FOCL</u>

13. The submissions made by Noticee no. 6, vide letter dated February 27, 2026 and April 12, 2026 and during the course of personal hearing are summarized as under:

    (1) No adverse observation *qua* the Noticee has been made in the interim and the confirmatory orders. The Noticee acted as the lead manager for the IPO of VCL and its responsibilities were clearly defined and allocated within the contractual framework, including the Escrow Agreement and the inter-se allocation of responsibilities submitted to SEBI in terms of the MB Regulations;

    (2) The impugned assignment was introduced to the Notice by ACAPL and the professional engagement of the Noticee was restricted to a specific and extremely limited mandate. Despite the limited scope of assignment, the Noticee discharged its professional duties with due diligence and care.

[12] Decided on May 5, 2025

Professional fee paid to the Noticee was discounted and nominal, strictly commensurate with the limited volume and nature of the work assigned to the Noticee;

(3) The Noticee was entirely unware of the arrangement between VCL and ACAPL and it was only on perusal of the SCN that the Noticee became aware for the first time that ACAPL had quoted a fee of ₹3.5 crores and had actually received a sum of ₹2.50 crores. In contra, the SCN corroborates that FOCL received only ₹10-15 lakhs;

(4) It is evident from the SCN that Mr. Jinesh Mehta had assisted VCL in IPO documentation, pre-IPO fundraising, valuation of IPO and coordination with FOCL. The Noticee relied upon the certifications from CAs and lawyers for due diligence and financial health was assessed on background checks and submitted records. Noticee's primary duties were to ensure proper disclosure, managing allotment process and overseeing funds;

(5) The Noticee carried out all the due diligence and verification while delivering services as a merchant banker. In execution of its duties as a merchant banker, the Noticee was bound to rely on the financial statements, corporate records and management representations provided by VCL. Offer document contained all the material disclosures and was filed before the Exchange as well as before SEBI. The Noticee had exercised all due diligence and satisfied itself about all aspects of the issue, including the veracity and adequacy of disclosures. Thus, the Noticee cannot be held liable for regulation 24(1), 24(3) and 25(2)(b) of the ICDR Regulations;

(6) The Noticee was not privy to the internal operational fabrications or the undisclosed RPTs. There is no evidence suggesting a malicious connection with entities like BM Traders and thus the charge of '*acting in concert*' is note tenable. Further, there is no allegation or evidence pertaining which demonstrates unlawful gains on the part of the Noticee;

(7) The Noticee has taken significant steps to address regulatory concerns raised during initial inspections including meeting net-worth requirements and improving compliance procedures. The Noticee has maintained high standard of integrity, dignity and fairness in the conduct of business and

has fulfilled its obligation in a prompt, ethical and professional manner. Accordingly, the Noticee cannot be held liable for violation of clauses 2 and 5 of Schedule III read with regulation 13 of the MB Regulations;

(8) The Noticee cannot scrutinize day-to-day management or operational issues of a company and thus, relied on representations made by VCL's management and auditors. The Noticee has co-operated with SEBI's investigation and submitted statements and documents as requested;

(9) The IP falls outside the professional involvement of the Noticee in its capacity as the Lead Manager and Merchant Banker for the IPO of VCL. It is a matter of record that the bidding for the IPO of VCL ended on September 20, 2022, with the basis of allotment being finalized on September 23, 2022. The statutory and contractual obligations of the Noticee, as the lead manager, concluded with the listing of the shares on the NSE SME Platform on September 27, 2022. The Noticee's liability is limited to the due diligence and disclosures made up to the point of listing and pursuant to the same, the Noticee had no control over, nor any regulatory nexus with the subsequent corporate actions of the issuer company;

(10) It is imperative to distinguish between '*reasonable due diligence*' and a '*forensic audit*' and as a merchant banker, the Noticee is required to exercise reasonable care to ensure that the disclosures in the prospectus are true and fair. The Noticee is bound to rely on audited financial statements and reports provided by the statutory auditory. The Noticee was entitled to rely on the reports and certifications of other professionals such as statutory auditors, peer review auditors and legal counsels, who are experts in their respective fields. The Noticee did not merely accept VCL's statements and the due diligence process involved multi-layered verifications of material documents, including Board resolutions, material contracts etc.;

(11) Relying on statutory auditor's certificate for financial numbers is a matter of professional necessity and the Noticee has relied on the valuation report dated July 16, 2022 on the equity value of VCL, issued by AAA Valuations

Professionals LLP. A merchant banker cannot be expected to re-audit the books of an issuer. The Noticee had duly examined all the certificates, documents, financial report, and annual reports issued by the independent auditor, Garg Goel and Co., Chartered Accountants. The Noticee submits that the litigations related disclosures were made on the information provided by TMT Law Practice and being a lead manager, FOCL had no power to put foot in the shoes of the legal practitioner and was bound to rely on the legal practitioners;

(12) All key financial disclosures mentioned in the prospectus were verified. The object of the Issue by reviewing quotations, MoUs, and feasibility reports. Subsequent diversion of funds or financial misstatements cannot be retrospectively attributed to a lack of diligence during the IPO stage. There is no evidence to establish that the Noticee was aware of the hidden financial discrepancies or that it acted in collusion with the issuer;

(13) The Noticee performed diligent searches on various courts' portal and obtained tax-related demands raised by the Income Tax departments *qua* VCL and KMPs. If the issuer willfully suppresses information despite the Noticee's specific inquiries, the liability for such concealment rests solely with the issuer company;

(14) The allegations pertaining to inaccuracies in financial reports and litigation reports were the primary responsibility of Independent Auditors (Garg Goel & Co.), Valuer (AAA Valuations Professionals LLP) and the legal counsel to the issue (TMT Law Practice) and by failing to array these professionals as Noticees, the SCN seeks to hold the merchant banker liable for the work of specialized experts without first establishing any professional negligence on their part. If the specialized legal and financial experts did not flag these issues, it is legally untenable to expect the Lead Manager to have discovered them;

<u>Noticees no. 7 and 8 – ACAPL and Mr. Jinesh Mehta</u>

14. The submissions made by Noticees no. 7 and 8, vide letters dated November 10, 2025 are summarized as under:

(1) ACAPL is a general business consultant offering liaison work to corporates and introducing pre-IPO companies to merchant bankers. ACAPL has never claimed to be a registered merchant banker to any corporate;

(2) The Noticee has always accounted the professional fees paid to ACAPL by VCL as '*Income*' in the books and the Noticee is not aware as to why VCL had accounted the same as '*Purchases*' in VCL's books;

(3) ACAPL had merely liaised with VCL in collating documents required for IPO process and all the documents were provided to FOCL for further regulatory process. The Noticee has never dealt with or interacted independently with NSE and VCL and FOCL were part of interactions with NSE;

(4) The Noticee had received the funds from VCL through proper banking channel and the same was accounted as *income* and all due taxes such as GST, Income Tax were paid on the same. Normal IPO expense range for the size of VCL IPO is around 10-15% of the total size of IPO and the amount paid by VCL to ACAPL as fees is not disproportionate;

(5) The Noticee was not involved in pre-IPO placement or managing investor interactions and Noticee no. 2 was directly interacting with the investors;

(6) The Noticee did not respond to NSE queries using VCL's letterhead. NSE queries were always responded to by either VCL or FOCL;

<u>Notice no. 9 –Mr. Raj Jagtani</u>

15. The submissions made by Noticee no. 9, Mr. Raj Jagntani, Proprietor of BM Traders, vide letter dated April 15, 2026 are summarized as under:

(1) The association of the Noticee with VCL was limited in scope and operational in nature and the Noticee was not involved in strategic or financial reporting and the Noticee has acted in good faith. Payments linked to the Noticee pertain to advances made to local vendors, intermediaries and facilitators. The said advances were made in connection with VCL's stated objective of identifying and securing land parcels, supporting the rollout of EDCs etc.;

(2) Given the nature of operations, it was common for businesses to engage local land aggregators and coordinators and provide advance payments to

secure opportunities. Thus, the transactions were business driven advances. The Noticee did not retain or utilize these funds for any personal benefit and the Noticee's role was facilitative and intermediary in nature;

Noticee no. 11 – Mr. Fahim Iunus Shaikh

16. The submissions made by Noticee no. 11, Mr. Fahim, vide letter dated November 5, 2025 and during the course of personal hearing are summarized as under:
    (1) The Noticee was working as Executive – Projects and Logistics with VCL initially and subsequently the Noticee was promoted to Senior Executive – Administration. The Noticee has never performed any activities/ duties as director in the Company and all the official documents and the DSC of the Noticee were under complete and total control of Noticee no. 2;
    (2) On being made aware that my DSC was misused by Noticee no. 2, the Noticee had filed a police complaint;
    (3) The Noticee is not aware about the details mentioned in the SCN as the Noticee was not a part of the VCL's activities and the control and decision making was done by Noticee no. 2.

Noticee no. 12 – Mr. Kalpesh Acharekar

17. The submissions made by Noticee no. 12, Mr. Kalpesh, vide letter dated December 15, 2025 and during the course of personal hearing are summarized as under:
    (1) The Noticee is 12th pass individual with prior experience as a logistic and operation executive. The Noticee was appointed as a Non-Executive Director of VCL with effect from April 27, 2022 and the Noticee's role was confined to providing broad strategic guidance based on his operational experience and did not extend to day to day management, financial oversight, or regulatory compliance;
    (2) The Noticee, upon observing certain operational challenged, deemed it appropriate to resign from his directorship effective October 14, 2024. The ICDR Regulations primarily apply to the *issuers* and *a person connected*

with the issue as explicitly defined in regulation 2(r). The Noticee was neither the *issuer* nor a *person connected with the issue* in the operational sense;

(3) The IPO prospectus contained comprehensive and substantial disclosures regarding VCL's business operations, financial positions etc. and thus, the statutory standard under regulation 24(1) is satisfied. Any alleged deficiencies in disclosure were attributable to information gaps and not due to any willful misrepresentation or negligence on the part of the Noticee;

(4) The regulatory framework under ICDR Regulations establishes structured process involving multiple statutory gatekeepers including lead managers, Registrar for procedural compliance and SEBI for regulatory oversight. Noticee's role as a Non-Executive Director was limited to supervisory oversight based on reasonable diligence upon the professional certifications;

(5) The allegation that the Noticee's signature links him to the deficiencies is misplaced as the liability for the content of the prospectus primarily rests with the *issuer* (VCL) and its executive management and role of a Non-Executive Director is of oversight and not a forensic auditor;

(6) The SCN's allegation that the Noticee has not displayed any due diligence is vague and unsubstantiated and the Noticee, with his limited financial and legal background exercised due diligence by relying on the representations of the executive management and the certifications of the qualified professionals;

(7) Charges pertaining to PFUTP Regulations are not tenable as the SCN is devoid of evidence to demonstrate that the Noticee had any knowledge of the alleged fraud, derived any benefit from it or was complicit in the scheme. In ***Mohandas Shenoy Adige Vs. SEBI***, Hon'ble SAT has held that a subsequent event or decision by a company cannot lead to adverse inference that the prospectus was misleading at the time of its issuance, thereby negating the assumption of a pre-meditated fraudulent design attributable to all directors. In ***SEBI Vs. Kishore R. Ajmera***, the Hon'ble

Supreme Court has emphasized that for a charge of fraud, element of *mens rea* or guilty intention is essential.

(8) A Non-Executive Director cannot be held accountable for failures of the executive management without proving direct involvement or knowledge in terms of Section 149(12) of the Companies Act, 2013. The Hon'ble Supreme Court in ***Sunil Bharti Mittal Vs, CBI*** has held that a director cannot be held vicariously liable for the acts of the Company unless there is sufficient evidence to show their active role, consent or connivance;

(9) SEBI must look beyond mere designation and prove actual involvement and the regulator must prove a director's *actual involvement in/ awareness of any violations* before imposing liability. The SCN makes allegations based solely on the designation and signature of the Noticee without providing any particularized evidence of the Noticee's role.

18. At this juncture, I deem it fit to note that Noticee no. 10, Avance Technologies Limited, vide email dated February 17, 2026, had informed that it has filed a settlement application in terms of the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 (hereinafter referred to as the **"Settlement Regulations"**). In terms of regulation 8 of the Settlement Regulations, filing of a settlement application does not affect the continuance of a proceedings except for the passing of the final order in the matter. I note from the material available on record that pursuant to filing of the aforesaid settlement application, the Noticee was accorded with an opportunity of hearing and the Noticee has filed written submissions in the matter. However, the settlement application filed by the Noticee is still pending, as on date, and therefore, passing of an order *qua* Noticee no. 10, Avance Technologies Limited, is barred by regulation 8 of the Settlement Regulations. In light thereof, the present order shall not deal with the allegations levelled against Noticee no. 10 and no adjudication of the allegations levelled against the said entity shall be done in the present order. It is however made clear that reference shall be made to the acts/omissions/conduct on part of Avance Technologies

Limited observed in the investigation, wherever found necessary, for assessment and examination of the allegations levelled against other Noticees.

Consideration of Issues and Findings

19. I have carefully considered the allegations levelled against the Noticees, the replies filed in the matter, the oral submissions made during the course of personal hearings and other material available on record. In light thereof, I shall now deal with the submissions made by the Noticees.

Noticee no. 1 - VCL

20. Noticee no. 1 has been alleged to have committed the following violations:
    - i. Misrepresentation of financial statements, prospectus and showing fictitious sales and purchases;
    - ii. Filing of incorrect Statement of Deviation pertaining to utilization of IPO proceeds;
    - iii. Submission of incorrect shareholding pattern;
    - iv. Mis-utilization of IPO and Rights Issue proceeds and diversion of funds to promoter group entities;
    - v. Providing misleading information to the investors and stock exchanges regarding business acquisitions;
    - vi. Disclosure of misleading quotation under Objects of Issue and non-disclosure of litigation in the Prospectus and Letter of Offer;
    - vii. Failure to disclose RPTs.

21. I note from the material available on record that even after being accorded with ample opportunities, Noticee no. 1, in its submissions, has not addressed/ touched upon the allegations levelled in the SCN. The reply filed by Noticee no. 1, instead of answering the allegations levelled in the SCN on merits, seeks to prolong the present proceedings. Separately, Noticee no. 2, Mr. Harshawardhan Sabale, the MD of VCL, in his reply (even though replying for himself only) has made certain submissions, which also address the

allegations levelled against VCL. I take the same on record and will deal with them while dealing with the contentions of Noticee no. 2.

22. Noticee no. 1 has argued that pursuant to issuance of the interim order, the quorum of the Board could not be met and therefore, the Noticee can neither appoint a legal representative nor file written submissions on merits in the matter. VCL has also proposed that pending restoration of minimum governance within the Company, the present proceedings may be kept in abeyance *qua* the Company and may be continued against the other Noticees which are legally capable of defending their respective case.

23. In this regard, I note that the interim order (dated May 10, 2024) was issued against Noticee no. 1 and its MD, Mr. Harshawardhan, and not against the remaining directors/ KMPs and pursuant to the same, vide Board Resolution dated May 23, 2024 (placed on record by the Authorized Representative of the Noticee), Noticee no. 1 had appointed one Ms. Sonakshi Agarwal to act on behalf of Noticee no. 1. Nothing has been brought on record by Noticee no. 1 to establish that on May 23, 2024, i.e., when the Board authorized Ms. Sonakshi to act on its behalf, there was any sort of deficiency in the quorum. On the contrary, Noticee no. 1, vide letter dated July 3, 2024, had filed written submissions, pursuant to the issuance of the interim order and prior to issuance of the confirmatory order. The said fact establishes that VCL was functional and operational during the said time and was involved in the quasi-judicial proceedings. Accordingly, I am of the opinion that the Noticee no. 1's submission as regards its inability to file written submissions and applicability of the maxim *lex non cogit ad impossibilia* (the law does not compel the impossible) holds no merit.

24. Noticee no. 1 has also proposed that SEBI may consider appointment of an NCLT appointed administrator, or a temporary limited purpose relaxation to permit the MD, Mr. Sabale, to provide factual clarification and access assistance to independent counsel for the Company. I am of the view that the

proposal to appoint a NCLT appointed administrator, put forth by Noticee no. 1, is *coram non-judice*. The present forum cannot entertain and act upon the request of the Noticee no. 1 pertaining to NCLT appointed administrator. Further, Noticee no. 1, as noted above, was at liberty to engage an appropriate legal counsel in the matter and the said liberty was exercised by VCL in the matter and therefore, the submission/ proposal to grant temporary relaxation to Noticee no. 2 to assist the Company needs no detailed consideration.

25. Having considered the limited reply filed by Noticee no. 1, I shall now independently examine the material available on record to adjudge the violations allegedly committed by VCL under the below-mentioned heads.

A. Misstatements in the IPO Prospectus and Mis-utilization of the IPO Proceeds

Setting up the Containerized Edge Data Centers and Edmission flagship Digital Learning Centers

26. Noticee no. 1, in September 2022, raised ₹40.39 crores (net proceeds) through an IPO, with the primary objective of setting up EDCs and EDLCs. In the Statement of Deviation, dated November 17, 2023, filed by the Company, with NSE, it claimed to have utilized ₹25.57 crores out of the net IPO proceeds received. The details of utilization / deviation, as filed with NSE, by the Company are as under:

Table No. : 2

(Figures in ₹ crores)

Original Object	**Original allocation**	**Funds utilized till 30.09.23**	**Amount of Deviation/ Variation, if any**	**Remarks, if any**
Setting up 3 Containerized Edge Data Centres	23.40	13.94	N.A.	No Deviation
Rollout of 3 Edmission flagship Digital Learning Centres	8.40	3.04	N.A.	No Deviation
General Corporate Purpose	8.59	8.59	N.A.	No Deviation
	40.39	25.57		

27. As per the disclosure made by the Company, in the Statement of Deviation, funds utilized for setting up of containerized EDCs and EDLCs were ₹16.98 crores (13.94 + 3.04). Noticee no. 1, in its Annual Report for the FY 22-23 (filed with exchange on April 28, 2023) disclosed that:

> *"We commissioned our first data center in Panjim, Goa in December 2022, followed by our second installation at Kudal, Sindhudurg district and a third in Mumbai."*
>
> *"Our first Edmission Centre was launched in Sawantwadi, Maharashtra, in February of 2019 in line with our mission of 'Building a phy-gital ecosystem for the next billion... As the **next step**, the Company will set up its second Edmission center at **Kudal**, for which it has secured the land. **This center should be up and running in the current year (FY24)**"*

28. However, the Company in its email to SEBI (email dated April 15, 2024) had submitted that *"...please consider that the operations of Kudal Data center had been consolidated with Sindhudurg, Maharashtra in the month of December, 2023. Further, please consider that the <u>Mumbai data center is yet to be launched</u>. Accordingly, at present our company operates from the above mentioned data centers..."*.

29. Thus, on one hand, vide Statement of Deviation dated November 17, 2023, the Company submitted to NSE that it had already commissioned the Mumbai EDC, on the other hand, vide email dated April 15, 2024, VCL submitted to SEBI that the Mumbai center was yet to be launched. Further, vide email dated April 19, 2024, VCL had also submitted that its EDC center in Goa and EDC and EDLC centers in Sawantwadi were functional with employees. In order to ascertain the veracity of the said claims, a site visit was conducted on January 15, 2025 and observations from the same are as under:

Table No. : 3

Name of Centre	**Site Visit Remarks by NSE**	**SEBI's Investigation Remarks**
Edge Center, Panaji Goa	Entity Edge Centre was not available. However, the entity Varanium was found operating on this location. The staff mentioned that the entity is operating there	1. As per the site visit report, there was no Containerized Data Centre at the given address; 2. The deed of lease for the premises was dated April 03, 2023, whereas company claimed in its

Name of Centre	Site Visit Remarks by NSE	SEBI's Investigation Remarks
	since 1 year and the founder is Mr. Harshawardhan. On further enquiry about Edge Centre, the staff stated that they were not aware about it. No of employees found available during the visit – 6.	Annual Report that this Centre was commissioned in December 2022; 3. Similarly, the *"Corporation of the city of Panaji"* issued the license to this place of business on January 02, 2024, i.e., much later than the claimed date of commencement of business; 4. As per the Electricity Bill issued by Electricity Department of Goa, the quantum of electricity consumed was only 06 units for the period 18-Nov-23 to 18-Dec-23, whereas the units consumed for the subsequent billing cycle were 2,450 units. This indicates that the entity did not have any tech intensive operations prior to this period.
Edge Center / BPO, Sawantwadi	Edge Centre/BPO, Sawantwadi was not available. However, the address is same as Varanium Cloud Ltd.	1. The registered office of the Company and EDC have same address; 2. There was no Containerized Data Centre at the given address; 3. As per the MSEB Electricity Bill, the units of electricity consumed are as follows: November-23 = Zero December-23 = 10 units; 4. The Company has claimed vide email/letter dated April 15, 2024 and April 19, 2024, that 31 employees were employed at this center; In this regard, the Company had earlier disclosed in its public announcement dated November 8, 2023 that: - *"...Hydra vertical, first of its kind BPO & KPO operation set up in Sawantwadi, Sindhudrug proudly boasts of employing 125+ young people from across the surrounding regions with a stellar percentage of female employees in the mix..."* *"...services range from data entry, accounting, background verification, debt recovery amongst others. By leveraging a combination of its multi-use phygital infrastructure & its edtech/skills development vertical..."* In view of the above, it appeared that the disclosures made by the Company were misleading and did not give true and fair picture of its business operations.

Name of Centre	Site Visit Remarks by NSE	SEBI's Investigation Remarks
Edmission Center, Sawantwadi	The Entity was found to be available; the staff informed that only documentation is done at the said location and that the Varanium main branch is located in Gujarat. No of employees found available during the visit - 8	1. There was no operational Distance Learning Centre at the given address; 2. Only 8 employees were available at the given address during site visit, in contrast to the submission of Company claiming to have 107 employees working at the said center; 3. Persons available at the site conveyed that only documentation work is being done at this center, which does not match with the disclosed scale and nature of operations in Annual Report and various other corporate announcements; 4. The copy of invoices issued by Broadband service provider did not appear to be genuine as it contained incorrect dates of bill and nothing was mentioned about speed of broadband or other technical details.

30. The observations noted in the above Table give a very clear picture of the manner in which VCL was undertaking its corporate affairs. The *staff* at the purported Goa EDC center was not aware about the EDCs, the lease deed was dated April 3, 2023 whereas VCL in its Annual Report had claimed that the Goa center was commissioned back in December 2022, Corporation of the City of Panaji had issued the appropriate license to conduct business to VCL on January 2, 2024. As regards EDC, Sawantwadi, the electricity units for the months November and December 2023 were 0 and 10, respectively. Further, while the Company had informed SEBI that 31 individuals were employed in this center, it had, in its public announcement dated November 8, 2023, stated that VCL had employed 125+ people. Similarly, for EDLC, Sawantwadi, the site visit revealed that there was no operational Distance Learning Center and only 8 employees were available at the given address, in contrast to VCL's claim of 107 employees. The said observations clearly demonstrate that the actual state of affairs was not even close to what Noticee no. 1 painted it to be before the investors at large, and the EDC and EDLC centers were not functional and operational.

Quotation from Avance Technologies Limited

31. As per the Prospectus filed by the Company, it received a quotation from ATL to establish 3 containerized EDCs for ₹23.40 crores and to establish 3 EDLCs for ₹8.40 crores. When the supporting documents for setting up the EDCs and EDLCs were sought from the Company/ Noticee no. 1, it submitted bills worth ₹35 lakhs only. The Company shared no other document and stated that *"…The invoices of M/S Avance Technologies are currently with the CGST department as the company is undergoing the CGST audit…".*

32. I note that ATL is a company listed on the Bombay Stock Exchange and offers Information Technology services. The financial snapshot of ATL is as follows:

Table No. : 4

Financial Results of ATL **(in ₹ crores)**

Particulars	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Revenue from Operations	0.04	11.52	30.53	69.29
PAT	(27.57)	(0.62)	0.41	2.08

33. The value of quotation obtained by the Company from ATL (i.e., ₹31.80 crores) surpassed 100% of the revenue of ₹30.53 crore reported by ATL in FY 22-23, as seen in the above Table. From the financial statements of ATL for FY 2022-23, it is also noted that out of the total assets amounting to ₹434.70 crores, ATL had no fixed assets and approximately 96% of the assets fell under the following categories:

Table No. : 5

Excerpts from Balance Sheet of ATL **(in ₹ crore)**

Particulars	Amount
Non-Current Assets – Financial Assets – Investments (various private companies)	236.62
Other non-current assets (trade advances)	141.23
Current Assets - Financial Assets – Investments (includes investment in Jump Networks Limited of ₹20.27 lakhs)	39.54
Total	**417.39**

34. As seen from the Table above, ATL had no fixed assets. Fixed assets are long-term tangible properties or equipment essential to a company's operations. Absence of any kind of fixed assets in the financial statements of ATL, ideally, should have alerted a genuine and bonafide customer about ATL's capability to execute operations such as construction/ installation of EDCs and EDLCs. However, VCL conveniently decided to look the other way and mislead the investors by stating in its Prospectus that it had received a quotation from ATL which, ATL, as noted above, was logistically, not capable of executing. As noted above, not only were the alleged EDC and EDLC centers in Goa and Sawantwadi not functional/ operational, ATL never had the requisite operational capability to execute the said project.

35. While the material available on record unequivocally brings out the deficiencies and violations on the part of Noticee no. 1, the Noticee no. 1, during the entirety of the proceedings (including investigation) has failed to bring on record a single piece of evidence to suggest otherwise. VCL, during investigation or during the present proceedings, has failed to provide any supporting documents to substantiate the transactions with ATL or establishment and operational functionality of the EDC and EDLC centers. As noted from the Statement of Deviation filed by the Company, it had, by September 30, 2023, utilized ₹16.98 crores for setting up the EDCs and EDLCs. However, the material available on record clearly shows ATL's financial and operational incapability to execute the said project. In light of the said facts, I find that the Statement of Deviation filed by VCL wherein it has stated that ₹16.98 crores from the IPO proceeds were used for setting up the EDCs and EDLCs and that there was no deviation from the objects of IPO was incorrect and misleading.

B. <u>Mis-utilization of Rights Issue proceeds</u>

36. The Company, vide its Letter of Offer dated September 26, 2023, issued partly paid-up equity shares in the ratio of one (1) equity share for every ten (10) fully paid-up equity shares, to raise a sum of ₹48.45 crores. The intended/ proposed

use of the net proceeds of the Rights Issue by the Company, as per the Letter of Offer was as follows:

Table No. : 6

Objects of Rights Issue **(₹ in Crore)**

Original Object	Allocation	Estimated deployment for FY 2023-24
To augment the existing and incremental working capital requirement of our company – Hydra BPO Unit	36.37	36.38
General Corporate Purpose	12.08	6.06
Issue Expenses	1.00	1.00
Total	**49.45**	**43.44**

37. The Company's stated intent of the Rights Issue was, *inter-alia*, to raise ₹36.37 crores for augmenting the existing Hydra Business Process Outsourcing units and working capital requirement for the same, all of which was intended to be utilized within the same financial year, i.e., 2023-24. As per the Company's Annual Report for FY-23 *"…Hydra vertical, we create edge data centers for reliable and efficient computing in non-urban cities or specific locations…"* and *"…HydraWeb remains dedicated to revolutionizing the landscape of high compute, cost-effective BPO and KPO operations in nonurban areas... We commissioned our first data center in Panjim, Goa in December 2022, followed by our second installation at Kudal, Sindhudurg district and a third in Mumbai."*

However, as mentioned earlier, the Company, in its response to SEBI dated April 15, 2024 submitted that the Mumbai Center was yet to be launched. I note that the Company had raised ₹23.40 crores through the IPO for setting up 3 containerized Edge Data Centers and as per the statement of utilization disclosed by the Company, out of the total funds raised by the Company through IPO, ₹9.46 crores remained un-utilized, as on September 30, 2023. Therefore, despite having un-utilized funds from the IPO for setting up 3 EDCs, VCL raised additional funds to the tune of ₹36.37 crores for augmenting the existing centers. The trail of the funds raised by VCL has been analyzed in the subsequent paragraphs.

Fund trail of IPO and Rights Issue proceeds

38. On analyzing the bank statements of Noticee no. 1, during the course of investigation, it was observed that upon receipt of IPO proceeds, VCL made large remittances to multiple entities, including an entity named BM Traders. The details of the said remittances are summarized as under:

Table No. : 7

Fund Trail of IPO Proceeds received by VCL

Remitted to	₹ in Crore	As % of Net IPO Proceeds
BM Traders	15.46	38.31%
Turmeric Lifestyle Pvt. Ltd.	1.50	3.72%
Varanium Earth Pvt. Ltd.	1.14	2.82%
Varanium Lifestyle Pvt. Ltd.	0.88	2.18%
Total	**18.98**	**47.03%**

39. An analysis of the Annual Report of VCL revealed that it did not have any business relations with the entities mentioned in the Table above. However, 47.03% of the total IPO proceeds were transferred to these entities by VCL.

40. As regards the Rights Issue proceeds, it was noted that upon receipt of funds, VCL made large remittances to Noticee no. 2, Mr. Harshawardhan Sabale who was the MD of the Company, and to other promoter group companies. The details of the said remittances are summarized as under:

Table No. : 8

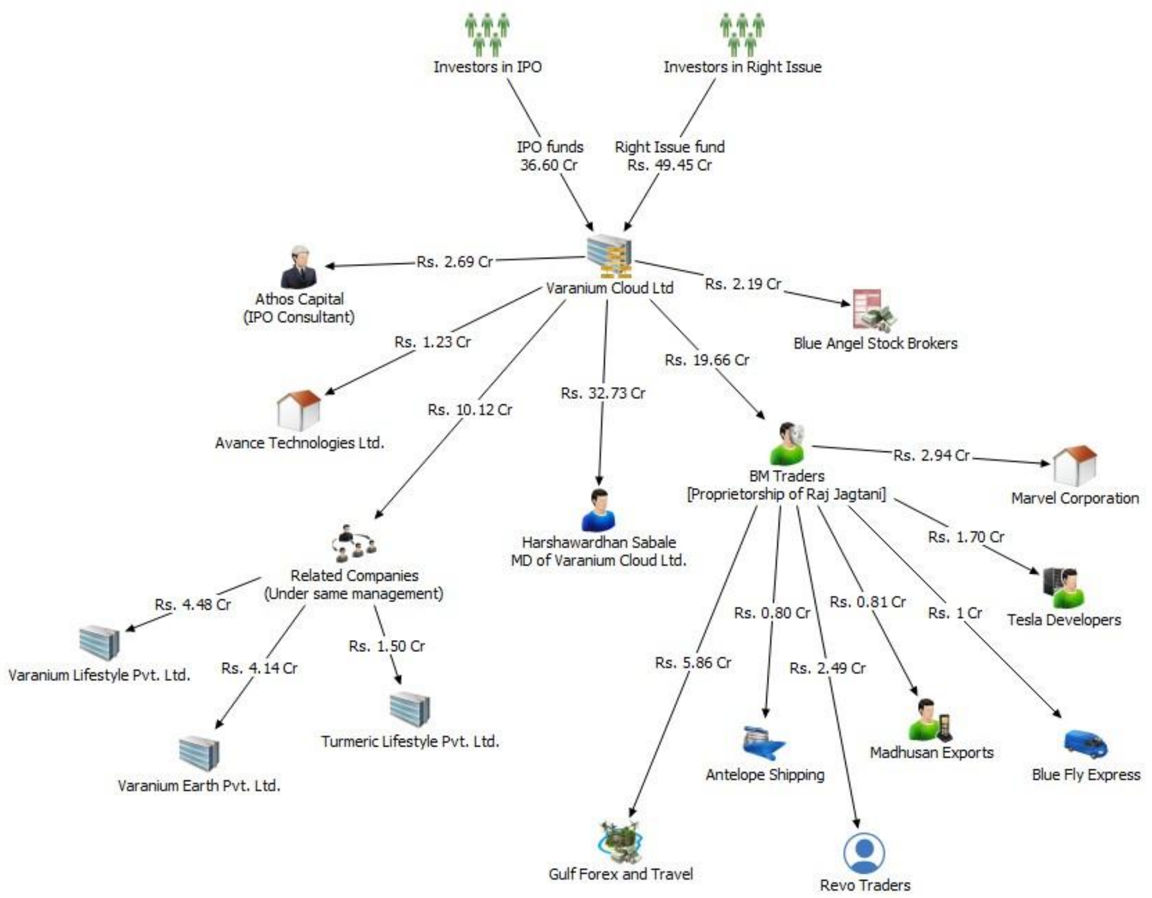
Fund Trail of the Rights Issue Proceeds **(₹ in Crore)**

Remitted to	₹ in Crore	As % of Net Rights Issue Proceeds
Mr. Harshawardhan Sabale	32.73	67.54%
BM Traders	4.20	8.67%
Varanium Lifestyle Pvt. Ltd.	3.60	7.43%
Varanium Earth Pvt. Ltd.	3.00	6.19%
Total	**43.53**	**89.83%**

41. It is noted from the above Table that VCL transferred 89.83% of the Rights Issue proceeds to Noticee no. 2 and other promoter group related entities. A pictorial

representation of the said siphoning-off of proceeds from IPO and Rights Issue by VCL is placed hereunder:

Chart No. 1



42. In reference to the above Chart, I note from the material available on record that Noticee no. 1 has not adduced any evidence or material to explain or substantiate these transactions and transfer of funds to these entities, including transfer of ₹32.73 crores to the personal account of Noticee no. 2, the MD of the Company, from the Rights Issue proceeds. The Prospectus and the Letter of Offer issued by Noticee no. 1 did not encapsulate transfer of IPO and Rights Issue proceeds to these entities and Noticee no. 1 has failed to explain the purpose/ motive behind these transactions.

43. Further, during the course of investigation, the aforesaid entities were advised to provide an explanation for the alleged transactions, however, no satisfactory

response was received from the said entities. Noticee no. 2, Mr. Sabale, failed to respond to summons dated December 6, 2024 and reminders dated December 18 and 31, 2024. BM Traders failed to comply with summons dated December 31, 2024 and reminders dated January 10 and March 7, 2025. BM Traders was further advised, vide summons dated February 14, 2025 and reminders dated February 24 and 28, 2025, to provide clarifications with respect to transactions with VCL. However, BM Traders could only provide ledgers of VCL, VLPL and VNPL and did not submit any explanation/ justification with respect to funds received from VCL. Similarly, VLPL was advised, vide summons dated January 3, 2025 and reminder dated January 14, 2025, to provide clarification/ details of its transactions with VCL. However, no response was received from VLPL. Summons were also issued to VEPL, vide letter dated January 14, 2025, advising it to provide its clarification/ justification for its transactions with VCL but no response was received from VEPL in that regard.

44. As regards the funds transferred to TLPL (₹1.50 crores), I note that the said funds were transferred to TLPL by VCL immediately after receiving IPO proceeds. VCL transferred ₹50 lakhs on the same day and ₹1 crore on the next day to TLPL. Interestingly, the said transfer, as per the Annual Report of VCL for FY 2022-23, was an investment for subscribing to the Compulsory Convertible Debentures (‘CCDs’) of TLPL. However, VCL in its email dated November 8, 2023 had submitted as under to NSE:

> *“The purpose of Varanium Cloud Limited's investment in Turmeric Lifestyle Pvt Ltd. was as an advance. We do not consider Turmeric Lifestyle Pvt Ltd as a related party as we have no control over its operations and management whatsoever. Under a contractual arrangement with the founder of Turmeric Lifestyle Pvt. Ltd, all operations and management vest with her solely.”*

45. It is noted from the above that the Company has given contradictory explanations for the funds transferred to TLPL. On one hand, the said transfer has been labelled as investment for subscribing to CCDs and on the other hand, the same has been labelled by the Company/ VCL itself as an advance. Further, as per the

financial statements of TLPL for the FY 2022-23, the said funds were received as investment for issuance of preference shares. I also note that TLPL was advised, vide summons dated January 3, 2025 and reminder dated January 14, 2025, to provide its clarification/ justification for the funds received from VCL. However, no response from TLPL was received. It is also worth noting that as on March 31, 2023, Noticee no. 2 was a director of TLPL and held 83.77% stake in TLPL.

46. Basis above, I note that neither the Company, nor TLPL, have been able to provide a plausible explanation for transfer of funds. While Noticee no. 1 has made contrary submissions with respect to the actual purpose of transfer of funds, TLPL has provided a totally different justification for the same. The said contradictions, in absence of any evidence to suggest otherwise, only strengthen and establish the allegations levelled in the SCN.

C. Mis-statement of Financial Results

47. During the course of investigation, mis-statements in the published financial results of Noticee no. 1 were observed in the form of fictitious sales and purchase transactions. The said fictitious transactions have been analysed in the subsequent paragraphs:

Fictitious Sales Transactions

48. The Company, during the course of investigation, had provided party- wise details of the major sales made by it, details of which are tabulated below:

Table No. : 9

Party-wise Sales of the Noticee no. 1 **(₹ in Crores)**

	FY 2022-23			HY FY 2023-24		
Name of Party	**Sales**	**Proportion to total sales**	**Trade Receivables 31.03.23**	**Sales**	**Proportion to total sales**	**Trade Receivables 30.09.23**
Amtelfone Incorporated	326.22	83.91%	60.21	268.10	71.44%	54.71
Cressanda Solutions Ltd.	21.07	5.42%	2.37	-	-	2.37
Varanium Lifestyle Pvt. Ltd.	23.36	6.01%	20.85	-	-	20.32

	FY 2022-23			HY FY 2023-24		
Name of Party	**Sales**	**Proportion to total sales**	**Trade Receivables 31.03.23**	**Sales**	**Proportion to total sales**	**Trade Receivables 30.09.23**
Varanium Networks Pvt. Ltd.	11.80	3.03%	11.47	-	-	11.47
Varanium Earth Pvt. Ltd.	5.90	1.52%	4.97	-	-	4.97
Shree Refrigeration's Pvt Ltd	0.30	0.07%	-	-	-	-
Turmeric Lifestyle Pvt. Ltd.	0.12	0.03%	-	-	-	-
Courage Clothing LLP	-	-	-	107.16	28.56%	107.15
Total	**388.77***	**100%**	**99.87**	**375.26**	**100%**	**200.99**
As per Financials	**383.35**		**102.91**	**377.33**		**207.20**
%	**101%**		**97%**	**99%**		**97%**

*The revenue from operations reported in the financials is ₹383.35 crores while the party-wise list of sales is shared for ₹388.77 crores.

- **Sales to Amtelfone Incorporated**

49. VCL, vide letter dated December 18, 2023, had submitted that services provided to Amtelfone were *VoIP services on a wholesale Software-As-A-Service (SaaS)* basis. I note from the material available on record that a public domain search yielded only basic information about Amtelfone such as *About, Services* etc. and no other details were available.

50. As noted in the table above, VCL entered into sales transactions with Amtelfone to the tune of ₹594.32 crores (in FYs 2022-24). It is only reasonable that transactions of such magnitude could not have been executed without appropriate documentation. However, VCL, during the course of investigation submitted that no supporting documentation were available as they had been seized by GST Department during the audit. Further, VCL has failed to address the allegation of fictitious sales transactions in the written submissions filed by it before me.

51. On account of failure of Noticee no. 1 to provide any documents for the aforesaid transactions, during the course of investigation, tally ledgers and bank statements of Noticee no. 1 were analysed. From Amtelfone's ledger for FY 2022-23, in VCL's books, it is noted that the entries for sales to Amtelfone were recorded at the end of each month without corresponding Bank Receipt entries throughout FY 2022-23. VCL had instead entered journal entries, adjusting the payments to be received from Amtelfone against payments to be made to Secur Credentials Limited ('SCL') and Amazon Web Services ('AWS'). The said accounting treatment appears to be improper and inherently suspicious. The absence of actual receipt entries, coupled with month-end consolidated sales postings and non-cash adjustments through third-party accounts, raises serious doubts as to the genuineness, commercial substance, and bona fides of the underlying transactions. In the absence of supporting documentation and a satisfactory explanation for such adjustments, the entries are liable to be viewed as artificial book transactions designed to give a misleading picture of sales.

52. From Amtelfone's ledger for FY 2023-24 in the VCL's books, it is noted that only two sale entries were recorded for ₹61.38 Crores and ₹206.72 Crores. While the ledger entries in the books of VCL revealed that around ₹12.45 crores were received/ recovered, VCL in its email dated November 8, 2023 had submitted that it had recovered the following amounts from Amtelfone:

Table No. : 10

Details of Transactions with Amtelfone **(₹ in Crore)**

Period	Amount outstanding at the beginning of the period	Sales during the period	Amount recovered during the period	Write-off during the period, if any	Total amount outstanding as of end of the period
FY 2022-23	-	326.22	**266.01**	-	60.21
HY FY 2023-24	60.21	268.10	**273.71**	-	54.71

53. I note that the payment entries supposedly recovered by VCL from Amtelfone did not reflect in VCL's ledger. Further, an analysis of bank statement of VCL also revealed that no such amounts were received from Amtelfone in the bank account. Additionally, the details of outstanding balances provided by VCL also

did not match with ledger entries of Amtelfone, maintained by VCL, for both the financial years. Details of the same are tabulated below:

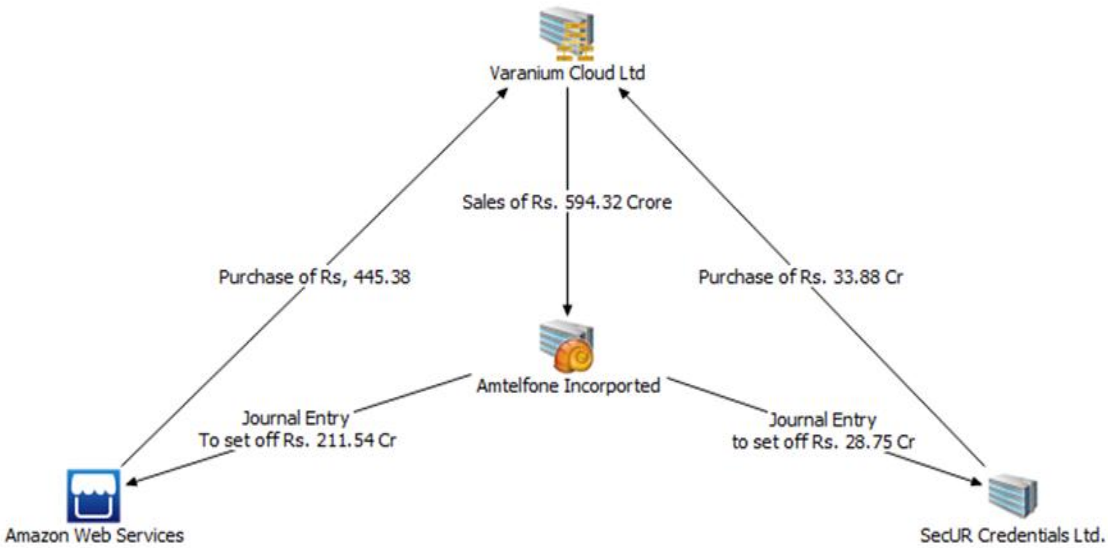
Table No. : 11

Submissions on Trade Receivables **(₹ in Crores)**

Balance	FY 2022-23	FY 2023-24 (30.09.2023)
As per the Company's submissions	60.21	54.71
As per the ledger	85.94	341.91

54. A pictorial representation of the transactions is as follows:

Chart No. 2



55. The above discussion brings on record additional evidence of contrary submissions/ data made/ provided by VCL. I note from the above that VCL has not made available any evidence to explain/ justify/ clarify the sale transactions with Amtelfone and instead made incorrect and misleading submissions as regards the trade receivables and made inexplicable journal entries and false payment entries to set off the recorded sales. Therefore, I find the transactions entered into by VCL with Amtelfone to be fictitious in nature.

- **Sales to Cressanda Railway Solutions Limited**

56. As per the annual Report of CRSL for FY 2022-23, "…*Cressanda Solutions Limited, an India-based company, has positioned itself as a dynamic player in the*

realm of Information Technology (IT), Digital Media, and IT-enabled services.”. Excerpt of the financial performance of CRSL is as under:

Table No. : 12

Snapshot of financial performance **(₹ in Crore)**

Particulars	FY 2020-21	FY 2021-22	FY 2022-23
Revenue from Operations	0.09	0.18	75.13
EBITDA	0.00*	(0.06)	1.58
PAT	0.00*	0.27	5.36
Net Worth	24.17	24.44	96.24
Long Term Borrowings	0	0	0

*less than ₹50,000/-

57. It is observed that CRSL’s revenue significantly jumped from ₹0.18 crores to ₹75.13 crores in FY 2022-23 and the entire revenue of ₹75.13 crores was on account of ‘*Trading Sales*’ against which ₹71.77 crores are recorded as ‘*Purchase of Stock-in-Trade*’. *Purchase of the stock in trade* refers to all the purchases of finished goods that a company buys towards conducting its business. However, as per the Noticee no.1’s Annual Report, entire sales, made by the Company, were on account of ‘*Services*’ provided, as seen under:

The following table sets forth our product wise Sales of our major Products for last 3 years : (₹ in Lakhs)

Particulars	FY 2023	FY 2022	FY2021
Voice over Internet Protocol (VoIP)	32,622.37	3,077.43	374.93
Online Payment Facilitator Services (PayFac)	1,785.43	361.98	0.00
Information Technology Enables Services (ITES)	3,928.54	95.80	0.00
Total – Sales	38,336.33	3,535.21	374.93

58. It is observed from the above that while CRSL claimed the sales amount to be on account of purchase of stock in trade, VCL claimed the same to be on account of services provided to CRSL. No supporting document, at any stage of the proceedings, has been brought on record to substantiate VCL’s claim that it was providing *services* to CRSL.

59. On perusal of the tally ledger of VCL, it was noted that the entire sales of ₹21.07 crores (as captured in Table 9 above) were made in the month of June 2022 as '*Data Transfer Social Media Management and IT Consulting Charges*' against which ₹18.70 crores were received in the month of July 2022 and the outstanding balance was ₹2.37 crores. To verify the entries recorded, vide summons dated January 22, 2025, CRSL was advised to provide/ clarify the financial dealings with Noticee no. 1. CRSL, vide email dated February 03, 2025, submitted the ledger of the Company/ Noticee no. 1, in their books of accounts. I note from the material on record that as per the said ledger, there was an additional payment entry on July 11, 2022 for ₹1.15 crores and journal entry for TDS payable for ₹0.36 crores, thereby, ending with an *outstanding debit balance* of ₹0.86 Lakhs, i.e., VCL owed certain amounts to CRSL, as per the records maintained by CRSL. However, the same was not recorded in the ledger of CRSL in the books of VCL. Further, on perusal of the bank statements of VCL, it was noted that the payments were received from CRSL. While the said payments were reflecting in the bank account statement of VCL, the corresponding ledger entries in the books of VCL did not capture the said transactions. The said entries were rather captured in the ledger of an unrelated/ unconnected entity, i.e., ATL, and not CRSL.

60. The aforesaid facts establish that while VCL may have provided certain services to CRSL, the maintenance of the financial records was not transparent at all. While VCL claimed and disclosed that it was owed trade receivables to the tune of ₹2.37 crores, data received from CRSL showed that VCL owed ₹0.86 crores to CRSL. In light of the same, I find that VCL had misstated the trade receivables and trade payables for FY 2022-23 and FY 2023-24.

- **Sales and purchase with Varanium Lifestyle Private Limited**

61. VLPL is a related party and a promoter group entity of VCL wherein Mr. Sabale, Noticee no. 2, holds 83.01% stake. Investigation revealed that VLPL was a related party and the details of sales and purchases were not disclosed as related party transactions in the disclosures given in the Annual Report. The details of the sales

and purchase transactions of VLPL (as noted from the financials of VLPL) are tabulated below:

Table No. : 13

Summary of sales and purchase transactions of VLPL for FY 2022-23 **(₹ in Crore)**

Particulars	Purchase	Sales
As per P&L	26.27	74.77
As per RPT – Purchase from companies under same management	26.16	2.33
% of RPT to purchase	99.58%	3.11%
Sale of services to VLPL by Varanium Cloud Limited	23.36	

62. I note that VCL, during the course of investigation and the course of present proceedings, has failed to adduce any evidence to explain the aforesaid transactions. A perusal of the tally ledger of VCL revealed that only two sales transactions were recorded throughout the year on December 31, 2022 and March 31, 2023 amounting to ₹23.36 crores. The Company had also recorded one purchase transaction amounting to ₹2.60 crores. Further, perusal of the bank statements of VCL revealed that it had paid and received ₹55 lakhs to and from VLPL on September 28, 2022. I note from the material available on record that VLPL, vide summons dated January 3, 2025 and reminder dated January 14, 2025, was advised to clarify its dealings with VCL, however, no reply was received from VLPL either, in this regard. Accordingly, I find that the aforesaid transactions were non-genuine and fictitious in nature and were made with a clear intent to overstate the financials to mislead the investors.

63. As regards the allegation of non-disclosure of RPTs, I note from the material available on record that VCL had made requisite disclosures in the Annual Report for the FY 2022-23 and the transactions entered into with VLPL were appropriately disclosed. Further, for the FY 2023-24, since there is no material on record to suggest that VCL had entered into any RPTs, no such disclosure was warranted and therefore, no violation is established in this regard on part of VCL.

- **Sales to Varanium Networks Private Limited**

64. VNPL is a related party and a promoter group entity wherein Noticee no. 2 holds a 99.99% stake. Investigations revealed that the details of sales transactions to VNPL were not disclosed as a related party transaction. The details of VNPL's financials for the FY 2022-23, as available on record, are tabulated below:

Table No. : 14

(₹ in crores)

Particulars	**FY 2022-23**
Sales	0.41
Purchase	0
Other Expenses	0.21
PAT	0.28
Total Assets	14.23
Trade Receivables	-
Non- Current Investment	1.95
Short Term Loans & Advances	0.28
CWIP	10.00

65. As noted above, VNPL's revenue (both sale and purchase transactions) were stated as ₹0.41 crores in the Annual Report for FY 2022-23. However, as per VCL's disclosure, it had claimed to have made sales to the tune of ₹11.80 crores in the said FY. I note that VCL, during the course of investigation and the course of present proceedings, has failed to adduce any evidence to explain the aforesaid transactions. A perusal of the tally ledger of VCL revealed that the sales were booked through two entries of ₹5.8 crores each at quarters ending December 31, 2022 and March 31, 2023. Further, perusal of the bank statements of VCL revealed that it had paid and received ₹5 lakhs to and from VNPL on November 5, 2022. I note from the material available on record that VNPL, vide summons dated January 3, 2025 and reminder dated January 14, 2025, was advised to clarify its dealings with VCL, however, no reply was received from VLPL either, in this regard. Accordingly, I find that the aforesaid transactions were non-genuine and fictitious in nature and were made with a clear intent to overstate the financials to mislead the investors.

66. As regards the allegation of non-disclosure of RPTs, I note from the material available on record that VCL had made requisite disclosures in the Annual Report for the FY 2022-23 and the transactions entered into with VLPL were appropriately disclosed. Further, for the FY 2023-24, since there is no material on record to suggest that VCL had entered into any RPTs, no such disclosure was warranted and therefore, no violation is established in this regard on part of VCL.

- **Sales to Varanium Earth Private Limited**

67. VEPL is also a related party of VCL wherein Noticee no. 2, Mr. Sabale, holds 99.99% stake. Similar to VLPL and VNPL, it has been alleged the sale transactions of VCL with VEPL were not disclosed as RPTs in the Annual Report. The details of the sales and purchase transactions of VEPL (as noted from the financials of VEPL) are tabulated below:

Table No. : 15

Summary of sales transactions of VEPL for FY 2022-23 **(₹ in Crore)**

Particulars	Purchase	Sales
As per P&L	5.02	9.13
As per RPT – Purchase from companies under same management*	Nil	Nil
% of RPT to purchase	-	-
Sale of services to VEPL by Varanium Cloud Limited	5.90	

*No RPT disclosure in the financials of VEPL. The outstanding trade receivables as on March 31, 2023 is ₹7.51

68. Perusal of the tally ledger of the Company revealed that one sale transaction to the tune of ₹5.90 crores, was recorded on December 31, 2022 and one purchase transaction was recorded for ₹3.26 crores on March 31, 2023. VCL, during investigation and during the course of present proceedings, has not produced any material to substantiate the aforesaid transactions. Vide summons dated January 14, 2025, VEPL was advised to clarify the dealings with VCL, however, no response was received from VEPL in this regard. Therefore, I am of the view that the aforesaid transactions were non-genuine and fictitious in nature and were made to overstate the financial figures to mislead the investors.

69. As regards the allegation of non-disclosure of RPTs, I note from the material available on record that VCL had made requisite disclosures in the Annual Report for the FY 2022-23 and the transactions entered into with VEPL were appropriately disclosed. Further, for the FY 2023-24, since there is no material on record to suggest that VCL had entered into any RPTs with VEPL, no such disclosure was warranted and therefore, no violation is established in this regard on part of VCL.

- **Sales to Shree Refrigerations Private Limited**

70. As per MCA records, Shree Refrigerations Private Limited (hereinafter referred to as **"SRPL"**) is a Maharashtra based company under process of *striking off*. From the SRPL's ledger in the books of Noticee no. 1 and the bank statements, it is noted that an amount of ₹0.30 crores, in lieu of the sales, was received from SRPL by VCL. However, the said payment entries could only be traced in the bank statements of the Company and no evidence could be obtained (either from the Company or independently) which could explain the purpose and nature of these transactions. I also note that the KMPs of the Company also failed to explain/ substantiate the said transactions during the course of investigation. The Company, VCL, also failed to adduce any piece of evidence at any stage of proceedings to substantiate the said transactions and therefore, in absence of any evidence, I find that the funds received by VCL from SRPL were not in lieu of sales and were wrongly projected as sales in the books of VCL.

- **Sales to Turmeric Lifestyle Private Limited**

71. As noted at Table no. 9 above, VCL had entered into sale transactions with TLPL for an amount ₹0.12 crores in FY 2022-23. However, I note from the material available on record that TLPL has reported *nil* revenue from FY2017-18 to FY 2022-23 and no purchase was recorded in the financial results of TLPL for the FY 2022-23. Therefore, there is a clear contradiction in the figures shown by VCL in its books and records of TLPL. While VCL has claimed that it sold services to the tune of ₹0.12 crores to TLPL, no corresponding purchase transactions are visible in the financials of TLPL. The same, in addition to the facts that Noticee no. 1 has

not substantiated/ explained the alleged sales transactions with documentary evidence and the failure of the KMPs to corroborate the said transactions, is evidence sufficient enough for me to hold that the said transactions were fictitious in nature.

- **Sales to Courage Clothing LLP**

72. The Company, during the course of investigation, had submitted that it had entered into sale transactions with Courage Clothing LLP (‘CCL’) for an amount of ₹107.16 crores. However, an inquiry into the existence of CCL revealed that CCL was a US based clothing company with no association to the business line of VCL. As noted above, on being advised to provide supporting documents pertaining to the sale transactions of ₹107.16 crores, the Company, VCL, failed to submit any document at all. A perusal of the ledger of CCL in the books of Company revealed that only one sale entry for ₹107.16 crores has been recorded and there was no record of payment entries. The absence of even a shred of evidence to support the alleged sale transactions, CCL not being in the same line of business, KMPs being unaware of the alleged transactions, in my opinion, conclusively establishes the allegations levelled in the SCN about fictitious nature of these transactions.

Fictitious Purchase Transactions

73. The details of the purchase transactions, allegedly entered into by VCL, during the FYs 2022-24, as provided by it, are tabulated as under:

Table No. : 16

Party-wise Purchases of VCL **(₹ in Crore)**

	FY 2022-23			**HF FY 2023-24**		
Name of Entity	**Purchase**	**Proportion to Total Purchase**	**Trade Payables 31.03.23**	**Purchase**	**Proportion to Total Purchase**	**Trade Payables 30.09.23**
Amazon Web Services	201.85	77.79%	-	243.53	100%	20.82
Secur Credentials Ltd.	33.88	13.06%	-	-	-	-

	FY 2022-23			HF FY 2023-24		
Name of Entity	**Purchase**	**Proportion to Total Purchase**	**Trade Payables 31.03.23**	**Purchase**	**Proportion to Total Purchase**	**Trade Payables 30.09.23**
Avance Technologies Ltd.	18.43	7.10%	-	-	-	-
Athos Capital Advisors Pvt. Ltd.	2.97	1.14%	-	-		-
Varanium Lifestyle Ltd.	2.34	0.90%	-	-	-	-
TOTAL	**259.47***	**100%**	**-**	**243.53**	**100%**	**20.82**
As per financials	**251.37**		**0.94**	**243.63**		**20.09**

*The purchases booked as per the financials is ₹251.37 crores while the company has shared the data for ₹266.15 crores.

- **Purchases from Amazon Web Services**

74. I note from the material available on record that as per VCL, AWS was providing *Bare Metal Server Hosting and Data Manager solutions* to VCL. As noted in Table no. 16 above, VCL had entered into purchase transactions of ₹201.85 crores in FY 2022-23 and ₹243.53 crores in FY 2023-24 (till September 30, 2023). While the vendor break-up of purchase transactions, as submitted by VCL, claims purchase transactions worth around ₹444 crores with AWS, Noticee no. 1 has failed to adduce any evidence to substantiate the said claim. I note that not even a single piece of evidence has been placed before me to justify the huge sums allegedly paid by VCL to AWS. VCL has failed to place any agreement, invoice or any other document to explain the nature and establish the bonafide of these transactions. On perusal of the tally ledger of the Company and its bank statements, it was noted that there were no payment entries recorded in this regard. Instead, as noted above in para 51, journal entries were recorded in the ledgers of AWS (Creditor of VCL) and Amtelfone (Debtor of VCL), thereby offsetting the balances of both the entities. For FY 2023-24, there were neither bank entries nor journal entries. The outstanding balances mentioned in the information submitted by the Company also did not match with the ledger of AWS maintained by the Company for FY 2023-24. The mismatch is tabulated below:

Table No. : 17

Submissions on Trade Payables **(₹ in Crores)**

FY 2023-24 (30.09.2023)	As per the Company's submission	As per Company's ledger
Balance	20.82	243.50

75. I note from the material available on record that in order to examine the veracity of the alleged transactions, vide summons dated December 19, 2024 and reminder dated January 1, 2025, AWS was advised to submit the details of its agreement with VCL along with relevant billing history and payment details. I note that AWS, vide email dated January 9, 2025, submitted invoices for amounts ranging from ₹20,000/- to ₹23,000. Accordingly, I note that while Noticee no. 1 was claiming the purchase transactions to be in the range of hundreds of *crores,* the counter-party, AWS, has submitted invoices ranging in *thousands.* Similar to the transactions noted in preceding paragraphs, the Company has not, during investigation or during the present proceedings, provided any material to substantiate the alleged purchase transactions. Further, the KMPs of the Company also failed to explain the impugned transactions and therefore, I find that the purchase transactions pertaining to AWS were fictitious in nature.

76. I also note that no payment entries were recorded against the alleged purchase transactions, implying that the purchases were made on credit, which results in the party being mentioned in the trade payables section of balance sheet. However, there is a mismatch in the Company's submissions and ledgers which has not been explained by Noticee no. 1. I note that the trade payables have been mis-stated by VCL by booking fake purchases. In AWS's case, as noted above, the Company submitted its trade payables to be ₹20.82 crores. However, as per the ledger, trade payable was ₹243.50. Hence, VCL has also mis-stated the trade payables in FY 23-24 by ₹222.68 crores.

- **Purchases from Secur Credentials Limited**

77. I note from the material available on record that SCL is a listed company which provides services relating to verification of employee background wherein Mr.

Sabale held 1.22% stake in SCL, as on December 31, 2022, which increased to 17.83% as on March 31, 2024. The Company, VCL, as noted in Table no. 16 above, entered into purchase transactions with SCL to the tune of ₹33.88 crores.

78. SCL's revenue from operations for the FY 2022-23 was ₹50.01 crores. The claims of Noticee no. 1 having entered into purchase transactions with SCL to the tune of ₹33.88 crores, therefore, would imply that approx. 68% of SCL's revenue was generated through VCL. A perusal of the tally ledger of VCL, during the course of investigation, revealed that VCL recorded payments to SCL of only ₹0.25 crores and the remaining balance was claimed to be adjusted against *Sale of IT Services* and journal entry towards Amtelfone (debtor of VCL), which was not backed by any evidence. The said adjustment entry has been discussed above in para 51 above.

79. Vide summons dated January 22, 2025, SCL was advised to clarify its dealings with Noticee no. 1. SCL, vide email dated February 04, 2025, submitted Noticee no.1's ledger in the books of SCL. On comparison of the ledgers of FY 2022-23, it was observed that there were additional purchase and sales entries recorded by the Company in SCL's ledger amounting to ₹31.52 crores and ₹4.89 crores, respectively and journal entry for adjustment with Amtelfone. Further, as per SCL's ledger in VCL's books, there was no balance outstanding, however, as per VCL's ledger in SCL's books, there was a credit balance of ₹2.11 crores, indicating that VCL owed the said amount to SCL.

80. In light of the above, I note that while the Company had claimed to have provided services to SCL, there was a mismatch between the quantum and the balance amount outstanding. While VCL has claimed that there was no outstanding balance, books of SCL revealed that VCL still owed a sum of ₹2.11 crores. Accordingly, I find that the Company has misstated the Purchases, Sales and Trade Payables in FY 22-23 and FY 23-24 *qua* SCL.

- **Purchases from Avance Technologies Limited**

81. As noted in the initial part of the order, VCL, in its Prospectus had mentioned that it had received a quotation from ATL to establish EDCs and EDLCs. Further, as noted above in Table 16, VCL had paid ₹18.43 crores to ATL in FY 2022-23. The said purchase transactions (as per VCL's email dated November 8, 2023) pertained to EDC building. However, instead of recording the same as fixed assets, the same were booked as expenditure in the Statement of Profit and Loss. Further, on perusal of the tally ledger, it was revealed that there was a single purchase entry of ₹21.75 crores and to close the account, payments, receipts, journal entries were recorded. As noted earlier in this order, payments from ATL were recorded in ledger of Amtelfone and payments from CRSL were recorded in the ledger of ATL. Additionally, payments to BM Traders were also recorded in the ledger of ATL.

82. In this regard, ATL, vide letters dated January 3 and 14, 2025 was advised to share documents pertaining to its transactions and agreement with VCL. ATL, vide letter dated January 20, 2025, submitted that while it was initially required to provide turnkey project and vendor management services for setting up 3 EDCs, it was later informed that the said projects would directly be executed by VCL and that ATL was not a party of the actual project execution.

83. In light of the facts brought on record by ATL and VCL's failure to substantiate the impugned transactions, I find merit in the allegations levelled in the SCN and note that purchase transactions disclosed by VCL were fictitious in nature.

- **Purchases from Athos Capital Advisors Private Limited**

84. I note from the material available on record that ACAPL was involved in the IPO of VCL in an advisory role and assisted VCL in collation of data for preparation of Draft Prospectus, advising the Company in interaction with NSE for in-principle approval, etc., for a professional fee of around ₹2.5 crores (excluding taxes).

85. As noted in Table no. 16 above, VCL had entered into *purchase* transactions with ACAPL in the FY 2022-23. Similar to the transactions noted above, the Company did not provide any documents to explain the alleged *purchase* transactions entered into by the Company. However, as per the tally ledger of the Company, it had recorded a *Professional Fees* of ₹2.97 crores in the ledger of ACAPL. From the escrow account statement of the Company (ICICI 000405136331_Public issue Escrow account), it was noted that the fees to ACAPL amounting to ₹2.69 crores was paid as an issue expense. Further, the Company, from its ICICI Bank account (bearing no. – 3449050001130), paid additional ₹0.15 crores to ACAPL. Thus, a total of ₹2.84 crores was paid to ACAPL, as per the bank statements of VCL.

86. In light of the above, I note that while VCL has claimed the amounts paid to ACAPL as payments for purchase transactions, it has made contrary entries in the ledger maintained by it and shown the same to be *Professional Fees* therein. Therefore, I find that the purchase transactions with ACAPL appearing in VCL's books were fictitious in nature.

87. To summarize discussion in preceding paragraphs about fictitious transactions, I find the following transactions for the FYs 2022-23 and 2023-24, to be fictitious:

Table No. : 18

Impact of Fictitious Sales and Purchases **(₹ in Crore)**

	FY 2022-23		**HY FY 2023-24**	
Name of Party	**Sales**	**Purchases**	**Sales**	**Purchases**
Amtelfone Incorporated	326.22	-	268.10	-
Varanium Lifestyle Pvt. Ltd.	23.36	2.34	-	-
Varanium Networks Pvt. Ltd.	11.80	-	-	-
Varanium Earth Pvt. Ltd.	5.90	-	-	-
Shree Refrigeration's Pvt. Ltd.	0.30	-	-	-
Turmeric Lifestyle Pvt. Ltd.	0.12	-	-	-
Courage Clothing LLP	-	-	107.16	-
Amazon Web Services	-	201.85	-	243.53
Secur Credentials Ltd.	-	31.52	-	-
Avance Technologies Ltd.	-	18.43	-	-
Athos Capital Advisors Pvt. Ltd.	-	2.97	-	-
Fictitious Sales/ Purchases resp.	**367.70**	**257.11**	**375.26**	**243.53**
As per Financials	**383.35**	**251.37**	**377.33**	**243.63**
Inflated Sales/ Purchases % resp.	**95.92%**	**102.88%**	**99.45%**	**99.96%**

88. Therefore, I find that the shareholders were misled by the inflated sales and purchase figures of the Company during the FYs 2022-23 and FY 2023-24. As noted above, in certain instances, trade payables and trade receivables were also misstated by the Company.

Mis-statement of revenue generated from US subsidiary

89. As per the Company's intimation to NSE, in its Board Meeting held on November 3, 2023, the Company disclosed that it would discuss raising of funds via listing of its subsidiary company with NASDAQ/ NYSE. The Company had also made an announcement with respect to formation of a new subsidiary, i.e., Varanium Cloud INC in Delaware, USA on the same date. The subsidiary was disclosed to be in the business of Information Technology and Cloud Services and its object was to expand cloud and other IT related services in USA. The subsidiary was to be set up with a capital of USD 1000 (1,000 shares @USD 1 per share), amounting to ₹83,288/- only. (1 USD = ₹83.288 as on October 26, 2023).

90. In this regard, the revenue from operations of VCL in FY 2023-24 is tabulated below:

Table No. : 19

Revenue from operations reported in FY 2023-24 by VCL

Particulars	Q1 FY 2023-24 (in Cr.)	Q2 FY 2023-24 (in Cr.)	Q3 FY 2023-24 (in Cr.)
Standalone	170.61	206.72	3.04
Consolidated	170.61 (same as standalone)	206.72 (same as standalone)	**395.15**

91. I note from the aforesaid that VCL earned a revenue of ₹395.15 crores on consolidated basis in Q3 of FY 2023-24 and VCL's standalone revenue for that period was merely ₹3.04 crores and thus, it is noted that VCL allegedly generated ₹392.11 crores in revenue from operations through its US subsidiary named Varanium Cloud INC in less than two months. In this regard, vide email dated April 21, 2024, VCL was advised to submit details pertaining to its subsidiary,

however, vide email dated April 23, 2024, VCL only shared an independent auditor’s review report and the standalone statement of revenue and failed to provide the requisite details pertaining to invoices, contracts, employee details, etc.

92. As regards, the party wise breakup for the third quarter of FY 24, VCL had submitted as under:

“we would like to inform you that our auditors are still awaiting the USCPA Institute approval for the sharing of the ledgers as requested by you, we will be sharing the ledgers once the approval is received”.

93. Further, the queries pertaining to the US subsidiary were once again raised by SEBI and the Company’s response to the same (dated April 23, 2022), along with SEBI’s observations is tabulated below:

Table No. : 20

Details of US subsidiary

<table>
<tr><th>S. No.</th><th>Particulars</th><th>Company’s Response</th><th>SEBI’s Investigation Remarks</th></tr>
<tr><td>1</td><td>Employee Details</td><td>Zero as on 31-Mar -24</td><td>Raises suspicion about sales figures reported for the quarter ended December 2023.</td></tr>
<tr><td>2</td><td>Details of Auditors</td><td>No details provided</td><td>Despite submitting an auditor report to NSE, the Company failed to provide basic details of US auditor like Engagement letter, Name and Contact details of audit firm and its partner.
This raises question on the authenticity of the submitted audit report.</td></tr>
<tr><td>3</td><td>Details of Borrowings</td><td>No details provided</td><td>As company has infused only USD 1,000 capital in the Company and there are no other borrowings, the scale of business claimed does not appear to be true.</td></tr>
<tr><td>4</td><td>Invoices of Sales</td><td rowspan="4">Not provided</td><td rowspan="3">Absence of any supporting document, suggests that stated sales figures and scale of operations are misleading.</td></tr>
<tr><td>5</td><td>Party-wise break-up of Sales</td></tr>
<tr><td>6</td><td>Bank Statements</td></tr>
<tr><td>7</td><td>Professional opinion on the plans of listing subsidiary on NASDAQ/ NYSE</td><td>The claims made by the company regarding listing of its subsidiary on mainboard platform of US based stock exchanges appear to be non-genuine.</td></tr>
</table>

94. I note from the above Table that VCL has failed to provide satisfactory response as regards its US subsidiary. Table no. 19 above shows that the US subsidiary generated a revenue of approx. ₹392 crores in one quarter alone. However, the response received from VCL could not substantiate the numbers. VCL submitted that Varanium Cloud INC had zero employees. While it had submitted an auditor report to NSE, VCL failed to provide the basic details such as engagement letter, name of the auditor, etc. While VCL had infused only $1000 in Varanium Cloud INC, the subsidiary generated a revenue of ₹392 crores in one quarter and VCL could not produce details of any borrowings, if any. VCL also failed to produce any invoice, bank statements, party wise break up of sales, etc. and therefore, I find that VCL had made misleading announcements and misstated its consolidated financial results for Q3 of FY 2023-24 to the tune of ₹392.11 crores.

D. Misleading Corporate Announcements

- **Announcements as regards Preferential Issue of Shares**

95. I note from the material available on record that the Company, after its listing, made several public announcements relating to business development, fund raising plans, venturing into new lines of business and about its robust operations across verticals. Few of the corporate announcements made by the Company were with respect to preferential issue for acquisition of Fastway Transmission Private Limited ('FTPL'). In that regard, following was observed during the course of investigation:

    a. On January 12, 2023, it was announced that the Company would seek approval from shareholders in the Extra-Ordinary General meeting scheduled on February 11, 2023 for issuance of equity shares worth ₹1,250 crores on a preferential basis.

    b. On February 11, 2023, the Company announced that the shareholders have approved the aforementioned resolution.

c. On February 15, 2023, the Company announced that in its Board Meeting, the Directors approved the acquisition of Fastway Transmissions Private Limited for a consideration of ₹2,683 crores, to be paid in cash. It was further stated that: *"…The acquisition will provide the Company with a platform, infrastructure and user base for becoming one of India's largest content distributors using its streaming technology, one of India's largest Edge Data Center providers and hyper local ecommerce service providers..."*

"…The acquisition is expected to be completed before September 30, 2023…"

d. In the Annual Report of FY 2022-23, the Company disclosed as under:

"…To strengthen our presence in this space, we are in talks to acquire Fastway Transmissions Private Limited at a consideration of over INR 2,000 crores. We are doing a Preferential Issue to garner funds for this acquisition. We hope to accomplish the fund-sourcing plan and the acquisition in the current year."

e. On April 8, 2023, it was announced that the aforementioned acquisition was placed on hold due to certain complaints received by the Company.

96. With regard to the preferential issue of shares, NSE had raised certain observations on the application filed by VCL for in-principle approval and sought clarification/ additional documents. I note from the material available on record that when the Company failed to respond, NSE sent another letter returning its application due to its failure to respond to NSE's queries. The Company failed to provide any further update regarding its plans of acquiring FTPL or raising money through preferential issue of shares.

97. I note that the Company has failed to explain the reasons for the aforesaid events. The Company, at any stage of the proceedings, has not provided reasons/ justifications as to why the aforesaid proposed acquisition did not go through. On

the other hand, material on record leaves the entire proposal tainted with suspicion. I note that FTPL, vide email dated January 28, 2025, had submitted that VCL had backed out of the proposed acquisition and thus, the deal could not materialize. I also note that FTPL had not filed it financials with MCA after FY 2022 and as per the last available financials, FTPL's consolidated networth was ₹615 crores, its total non-current liabilities were around ₹350 crores and trade payables were around ₹206 crores. I also deem it necessary to note that the proposed amount of acquisition, i.e., ₹2683 crores was around 20x of VCL's networth.

98. In light of the above facts and the financial health of FTPL and networth of VCL, it is beyond logic that any *bonafide* transaction for acquisition of FTPL, could have been executed for ₹2683 crores. The Company has also not brought any evidence on record to explain the basis of its announcements.

99. Thus, I find that the corporate announcements about acquisition of FTPL were ill-conceived and a ploy by the Company to mislead its investors into providing fresh capital through preferential allotment.

- **<u>Disclosure as regards litigations</u>**

100. The Company in its Prospectus, *inter alia*, had mentioned that:

> *"…In 2013, Mr. Sabale founded Ogle which was a globally patented (personally authored) and proprietary narrowband content streaming platform that worked seamlessly across any device that had a screen and internet access. It was poised to revolutionize content delivery (entertainment, education, wellness, etc) on sub-optimal data networks across the world.*
>
> *In 2016, Mr. Sabale founded the Streamcast Group (now Varanium), which was formed to carry on the work started in Ogle by taking the patented technology global on a B2B basis."*

101. As per the material available on record, one Mr. Cherag Shah claimed that he was an early investor in a technology developed by Mr. Sabale and due to dispute, Mr. Shah approached an Arbitrator who ruled in his favour, vide Arbitral award dated December 22, 2022 and directed Mr. Sabale and Ogle Technologies

to pay ₹49.23 crores to Mr. Shah. However, due to non-compliance on part of Mr. Sabale, Mr. Shah approached the Hon'ble Bombay High Court which issued a non-bailable warrant (on March 18, 2024) alongwith attachment of bank accounts of Mr. Sabale. In this regard, the Company, vide its press release dated March 21, 2024, stated that the matter pertained to Mr. Sabale in his personal capacity and had no bearing on Company's operations.

102. I note from the material available on record that there was no mention of the aforementioned litigation history in the Prospectus of the Company. Further, the press release made by the Company was also factually incorrect as the technology involved in litigation was transferred from Ogle to Streamcast (later changed to VCL). Mr. Sabale, being the MD and Promoter of VCL, was involved in a litigation wherein the subject matter, i.e., the technology, was transferred to the Company. Therefore, the press release was factually incorrect in its declaration that the impugned litigation was a personal matter of Mr. Sabale.

103. In light of the aforesaid facts, I find that VCL ought to have appropriately disclosed the pending litigations in its Prospectus and the Letter of Offer which it failed to do.

E. <u>Non-Disclosure under the SAST Regulations</u>

104. During the course of investigation, it was observed that the promoters' shareholding fell from 63.19% as on September 30, 2023 to 36.68% on December 31, 2023. Details of the same are tabulated below:

Table No. : 21

Details of change in Shareholding of promoters

Particular	September 30, 2022		March 31, 2023		September 30, 2023		December 31, 2023	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Promoter Shares	63,54,429	63.22	64,54,879	64.22	2,54,06,516	63.19	1,60,90,516	36.38

105. From the trade log, it is observed that the promoters of the Company (Mr. Sabale and VNPL) sold a total quantity of 80.16 Lakh shares (69.61 Lakh and 10.55 Lakh

respectively). The shareholding of the promoters as on September 30, 2023 was around 63% and the aforesaid sale, as noted from the Table above took the overall shareholding of the promoters from 63% to around 36.38%. The selling of shares by the promoters resulted in more than 2% change in shareholding, which required disclosures under regulations 29(2) and (3) of the SAST Regulations. However, the Company and its promoters have failed to make the requisite disclosures. Neither the Company, nor the promoters have brought any material on record to explain the cause behind VCL's failure to make the appropriate disclosures under SAST. In that light, I find VCL to be liable for failing to disclose the change in its shareholding pattern.

Incorrect shareholding percentages of promoter and public

106. One of the allegations levelled in the SCN is that Noticee no. 1 had also filed incorrect shareholding percentages of promoter and public for the quarter ending December 31, 2023. In this regard, I have perused the material available on record and note that shareholding pattern for the quarter ended December 31, 2023 was filed by the Company with NSE on January 20, 2024, disclosing Promoter and Promoter Group shareholding of 1,60,90,516 shares (36.38%), with 70,00,000 shares shown as pledged in the name of Mr. Sabale. Pursuant to said disclosure, VCL had made an announcement on NSE that there was an *inadvertent error in classification of the promoter group share*, however, no fresh filing was ever made by the Company. It is not the case in the SCN that the disclosure made by the Company on January 20, 2024 was incorrect. In that light, I note that the material available on record is not sufficient to level the charges of incorrect filing of shareholding pattern. Therefore, I am constrained to dismiss the allegation of filing of incorrect shareholding pattern.

F. <u>Misleading Corporate Announcements</u>

107. During the course of investigation, the Company made multiple corporate announcements which had substantial impact on the share price and trading volumes of the scrip of the Company. It is alleged that the said announcements

were misleading in nature. A summary of the said announcements is tabulated below:

Table No. : 22

Varanium Cloud Ltd.'s Price Volume vis-à-vis Corporate Announcements

<table>
<tr><th>Sr. No.</th><th>Date of Announce-cement</th><th>Category</th><th>Particulars of Announcement</th><th>Price & Volume Impact</th><th>SEBI's Investigation Remarks</th></tr>
<tr><td>1</td><td>28-Oct-2022 13:27:09</td><td>Expansion of Business</td><td>Entered into a Processing Service Agreement with Que Processing Service Private Limited to launch Rupay Prepaid Cards leveraging its Phy-Gital infrastructure in non-urban markets.</td><td>The price opened and locked at upper circuit ₹284.55 for whole day. Previous day's close price – ₹258.70.</td><td>Futuristic announcement lacked follow-through; no significant revenue generated in financial statements.</td></tr>
<tr><td>2</td><td>02-Nov-2022 11:15:14</td><td>Diversification into Clothing Business via e-Commerce</td><td>Entered into a License Agreement with Smiley World Limited to leverage its eCommerce-As-A-Service solution for launching a D2C collection of licensed branded apparel.</td><td>Price increased<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr><tr><td>337.6</td><td>345.05</td><td>333</td><td>345.05</td></tr></table></td><td>Diversification did not translate into measurable financial gains.</td></tr>
<tr><td>3</td><td>29-Nov-2022 22:03:39</td><td>International Tie-up with Merchandise Company</td><td>Partnered with Japanese media and brand house, The Pokémon Company, to launch exclusively licensed apparel and stationery.</td><td>Price increased (next working day 30-Nov-2022)<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr><tr><td>585.1</td><td>637.35</td><td>576.65</td><td>637.35</td></tr></table></td><td>Partnership did not yield significant revenue; possibly overstated impact.</td></tr>
<tr><td>4</td><td>05-Dec-2022 09:22:12</td><td>EDC Centre Launch in Goa</td><td>Announced the launch of its first proprietary designed Edge Data Centre ("EDC")</td><td>The price opened and locked at upper circuit ₹737.75 for whole day. Previous day's close price – ₹ 702.65</td><td>Ambitious expansion plans; actual implementation and financial impact</td></tr>
</table>

<table>
<tr><th>Sr. No.</th><th>Date of Announce-cement</th><th>Category</th><th>Particulars of Announcement</th><th>Price & Volume Impact</th><th>SEBI's Investigation Remarks</th></tr>
<tr><td></td><td></td><td></td><td>under the brand Hydra in Goa on December 27, 2022. Plans included two more EDCs in Kudal and Mumbai before March 31, 2023, with a target to launch one EDC every month in FY 2024. These EDCs were expected to improve gross margins and support 5G rollout requirements.</td><td></td><td>remained unclear.</td></tr>
<tr><td>5</td><td>07-Dec-2022 11:17:57</td><td>Launch of PE/VC Fund in Tech-Space</td><td>Announced plans to launch Varanium Phygital Fund with an initial corpus of ₹25 crore, subject to regulatory approvals. The fund aimed to take strategic minority equity positions in companies within its phy-gital value chain, supporting innovation and employment in non-urban areas of India.</td><td>Price Increased
<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>670.30</td><td>734.85</td><td>665.90</td><td>702.10</td></tr></table></td><td>Announcement lacked detailed execution plan; no subsequent updates provided.</td></tr>
<tr><td>6</td><td>14-Dec-2022 18:36:18</td><td>New Clothing Brand</td><td>Introduced a new brand, Vestria, targeting young women globally, in partnership</td><td>Next trading day- 15-Nov-2022
The price opened and locked at upper circuit ₹940.80 for whole day. Previous day's close price – ₹896</td><td>New brand launch did not contribute to noticeable revenue growth. Business of</td></tr>
</table>

<table>
<tr><th>Sr. No.</th><th>Date of Announc e-cement</th><th>Category</th><th>Particulars of Announcem ent</th><th>Price & Volume Impact</th><th>SEBI's Investigation Remarks</th></tr>
<tr><td></td><td></td><td></td><td>with leading jewelry firm Sky Gold Ltd.</td><td></td><td>VCL is distinct from jewelry business.</td></tr>
<tr><td>7</td><td>27-Dec-2022 12:33:34</td><td>Update on EDC Centre, Panaji</td><td>Inaugurated the proprietary designed Edge Data Centre in Panaji, Goa, under the brand Hydra. The launch aimed to facilitate reliable and efficient computing in smaller cities and dispersed locations.</td><td>Price Decreased<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>869.70</td><td>882.00</td><td>836.70</td><td>856.10</td></tr></table></td><td>Operational details and financial benefits of the EDC launch were not disclosed.</td></tr>
<tr><td>8</td><td>17-Jan-2023 09:07:32</td><td>Business Agreement</td><td>Entered into an agreement with Secur Credentials Ltd to provide high-compute, cost-effective BPO operations in non-urban areas.</td><td>Price Increased<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>1,377.50</td><td>1,449.80</td><td>1,377.35</td><td>1395.95</td></tr></table></td><td>Agreement lacked specificity; no measurable outcomes reported.</td></tr>
<tr><td>9</td><td>24-Jan-2023 11:05:49</td><td>Business Update on EDC</td><td>Announced that proprietary designed Edge Data Centres in Kudal (Sindhudurg District) and Mumbai would go live on February 21, 2023, and March 31, 2023, respectively.</td><td>Price opened and closed at upper circuit
Previous day's close price – ₹1387.75<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>1,457.10</td><td>1,457.10</td><td>1,408.00</td><td>1457.10</td></tr></table></td><td>Repeated announcements on EDCs without concrete operational details; impact uncertain.</td></tr>
<tr><td>10</td><td>20-Feb-2023 12:19:57</td><td>Launch of EDC in Kudal</td><td>Launched a proprietary designed containerised Edge Data Centre in Kudal,</td><td>Price maintained with slight increase at close price.<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>1,221.80</td><td>1,249.90</td><td>1,221.80</td><td>1224.60</td></tr></table></td><td>Financial implications of the launch were not communicated; impact on revenue unclear.</td></tr>
</table>

<table>
<tr><th>Sr. No.</th><th>Date of Announce-cement</th><th>Category</th><th>Particulars of Announcement</th><th>Price & Volume Impact</th><th>SEBI's Investigation Remarks</th></tr>
<tr><td></td><td></td><td></td><td>Sindhudurg, Maharashtra.</td><td></td><td></td></tr>
<tr><td>11</td><td>08-Mar-2023 10:21:47</td><td>Major Investment</td><td>Provided an update on the share purchase agreement with Fastway Transmission Private Limited.</td><td>Price maintained but decreased from previous day close price ₹892.95
<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>848.30</td><td>860.00</td><td>848.30</td><td>848.30</td></tr></table></td><td>Details of the agreement were not fully disclosed; investor uncertainty prevailed. No information provided by VCL and KMPs</td></tr>
<tr><td>12</td><td>22-Apr-2023 15:04:58 (Holiday)</td><td>New Business Vertical</td><td>In partnership with QMS MAS (Medical Allied Services), unveiled a cloud-based medical wearable device called Vyana.</td><td>Price increased (next trading day – 24th April 2023)
<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>725.00</td><td>740.70</td><td>725.00</td><td>740.70</td></tr></table></td><td>Product launch lacked market penetration; financial impact minimal.</td></tr>
<tr><td>13</td><td>31-May-23 08:49:10</td><td>New client acquisition</td><td>Multi-Year, Pan India Contract with SecUR Credentials Ltd for providing cost effective Process Outsourcing Services Hosted on Microsoft Workflow for Bank of Maharashtra</td><td>Price increased
<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>174.70</td><td>179.55</td><td>174.70</td><td>179.55</td></tr></table></td><td>No financial details were disclosed, and subsequent earnings reports did not reflect revenue realization.</td></tr>
<tr><td>14</td><td>09-Jun-23 12:13:47</td><td>USD 10 million funding in yet to be formed subsidiary</td><td>Board of Directors have discussed and approved the conditional term sheet of USD 10 Mn for 10% stake in the subsidiary that will be formed for the Hydra Web Services business segment received from</td><td>Price decreased
<table><tr><th>Open</th><th>High</th><th>Low</th><th>Close</th></tr><tr><td>159.00</td><td>159.85</td><td>152.65</td><td>153.40</td></tr></table></td><td>No update on actual investment received; possible attempt to maintain investor confidence.</td></tr>
</table>

<table>
<tr><th>Sr. No.</th><th>Date of Announce-cement</th><th>Category</th><th>Particulars of Announcement</th><th>Price & Volume Impact</th><th>SEBI's Investigation Remarks</th></tr>
<tr><td></td><td rowspan="2"></td><td></td><td>The Brown Family Trust. The investment is subject to completion of due diligence and signing of the final investment agreement and related transaction documents.</td><td rowspan="2"></td><td></td></tr>
<tr><td>15</td><td>Plan for incorporation of several subsidiaries</td><td>Incorporation of Wholly Owned Subsidiary Companies in India</td><td>No disclosures on subsidiary functions or capital infusion. No Information was submitted by VCL and KMPs</td></tr>
<tr><td>16</td><td>07-July-23 14:39:26</td><td>Major business agreement</td><td>Roll out of over 1,000 seats across India in partnership with Arrise BPO, One of India's Leading ISO Certified BPO Companies</td><td>Price decreased<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr><tr><td>168.80</td><td>171.00</td><td>156.50</td><td>156.50</td></tr></table></td><td>No significant financial impact observed in subsequent filings; details of execution were unclear.</td></tr>
<tr><td>17</td><td>14-July-23 16:34:01</td><td>Debt Acquisition</td><td>Agreement to Acquire Secured Debt In Rolta India Limited</td><td>Price decreased<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr><tr><td>142.00</td><td>143.70</td><td>135.35</td><td>137.70</td></tr></table></td><td>No further disclosure on the valuation of the debt or expected returns; potential high-risk investment.</td></tr>
<tr><td>18</td><td>09-Aug-23 14:41:57</td><td>Launch of EDC Centre, Mumbai</td><td>Launching of Mumbai Edge Data Centre (EDC)</td><td>Price decreased<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr><tr><td>157.35</td><td>160.00</td><td>152.80</td><td>154.90</td></tr></table></td><td>Announcement lacked supporting financials; no evidence of revenue contribution from the facility.</td></tr>
<tr><td>19</td><td>08-Nov-23 16:31:43</td><td>Business update</td><td>Business update about Employment Generation in KPO space in</td><td>Price decreased<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr></table></td><td>No financial disclosures to support employment claims;</td></tr>
</table>

<table>
<tr><th>Sr. No.</th><th>Date of Announc e-cement</th><th>Category</th><th>Particulars of Announcem ent</th><th>Price & Volume Impact</th><th>SEBI’s Investigation Remarks</th></tr>
<tr><td></td><td rowspan="2"></td><td></td><td>Sawantwadi and Kudal district of Maharashtra</td><td rowspan="2"><table><tr><td>128.00</td><td>128.00</td><td>124.35</td><td>124.35</td></tr></table></td><td></td></tr>
<tr><td>20</td><td>Change of Registered Office</td><td>Consolidation of operations in sindhudurg and change in the company s registered office to sawantwadi</td><td>Operational impact remains unclear; unlikely to contribute to revenue growth.</td></tr>
<tr><td>21</td><td>22-Nov-23 11:32:28</td><td>Internationa l business developme nt</td><td>Link of the Videos relating to the data center planned, designed, and built in Malta under the leadership and vision of our Managing Director, Mr. Harshawardh an Sabale</td><td>Price maintained<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr><tr><td>117.45</td><td>117.95</td><td>114.95</td><td>117.95</td></tr></table></td><td>No tangible financial impact; promotional material without concrete</td></tr>
<tr><td>22</td><td rowspan="2">21-Dec-23
14:56:25
21:53:21</td><td>Clarification on Malta Data Centre</td><td>Statement from UK contractor Blu-3 confirming completion of Phase 1 of Marsa Power Station Data Centre.</td><td rowspan="2">Price decreased<table><tr><td>Open</td><td>High</td><td>Low</td><td>Close</td></tr><tr><td>104.25</td><td>105.60</td><td>101.10</td><td>102.45</td></tr></table></td><td>Confirms partial completion but lacks clarity on current status.</td></tr>
<tr><td>23</td><td>Response to ET Prime on Malta Project</td><td>Confirmed transfer of Malta Data Centre to Enemalta PLC due to COVID-19 challenges.</td><td>No disclosure of financial implications from transfer</td></tr>
<tr><td>24</td><td>22-Jan-24 14:32:30</td><td>Shareholdi ng Pattern Clarification</td><td>Clarified that promoter’s holding was not reduced due to share sale but due to misclassificati on by the RTA</td><td>Announcement on holiday, therefore Next Working Day – 23rd January 2024 is considered. Price decreased.<table><tr><td>Open</td><td>High</td><td>Low</td><td>Prev. Close</td></tr><tr><td>145</td><td>147</td><td>127.6</td><td>127.60</td></tr></table></td><td>Revision promised in March 2024 filings</td></tr>
<tr><td>25</td><td>21-Mar-24 22:36:57</td><td>Legal Clarification on LiveLaw Report</td><td>Denied legal proceedings impact VCL, asserting</td><td>Price decreased<table><tr><td>Open</td><td>High</td><td>Low</td><td>Prev. Close</td></tr></table></td><td>The allegation pertains to Streamcast Cloud Pvt.</td></tr>
</table>

Sr. No.	Date of Announc e-cement	Category	Particulars of Announcem ent	Price & Volume Impact	SEBI's Investigation Remarks
			MD's case is personal.	55.80 56.15 52.00 52	*Ltd. (now known as VCL)*

108. It is clear from the above table that the Company made major corporate announcements, on regular intervals, and the said announcements were clearly followed by significant price and volume fluctuations. However, several stated major business agreements, expansions and partnerships, did not materialize. The Company did not record any sales from the MoUs, partnerships or new client acquisition related to the 21 corporate announcements. I also note that 11 out of the above 25 announcements had a positive impact on VCL's scrip including two upper circuits on two distinct trading days. Noticee no. 1, during the course of present proceedings or during the course of investigation has failed to rebut the aforesaid observation with requisite documentary evidence. In absence of any explanation from the Company and any other supporting material on record ensuring veracity of the aforesaid announcements, I am of the view that the said announcements were misleading and bogus in nature.

FRAUDULENT NATURE OF THE VIOLATIONS

109. Since the violations established against VCL involve violations of the PFUTP Regulations (and relevant provisions of the SEBI Act), I deem it necessary to refer to the decision of Hon'ble Supreme Court in the matter of ***Reliance Industries Limited and Ors. Vs. SEBI***[13]. The Hon'ble Supreme Court in the said matter, *inter alia*, while discussing the scope of the term '*fraud*' has held as under:

> *"…In our opinion, it cannot be the intention of the PFUTP Regulation to give unfettered powers to the respondent authority to decide the question of fraud. We find it apposite to purposively interpret Regulation 2(1)(c). In our considered view, both mens rea and actus reus cannot be made into irrelevant factors for deciding fraud. Therefore, we may outline the following scenarios for a more purposive approach to Regulation 2(1)(c):*

[13] 2026 INSC 585

> i. *in situations where injury due to wrongful act is established, i.e, inducement to deal in securities has caused the other person to be adversely affected and allowed the party accused of fraud to gain unlawful profits or avert ordinary losses at the former's expense, there would be no requirement on the respondent authority to prove deceitful intention. In other words, where injury is impossible to be proved, the requirement of wrongful intention becomes mandatory.*
>
> ii. *Secondly, similarly, in situations where deceitful or mala fide intention to defraud and manipulate the securities market is clear from the blatant misconduct or attending circumstances that cogently establish wrongful intention, then injury would not be required."*

110. The present case, in my opinion, is one where both the aforesaid elements exist. As discussed above, the Company, *inter alia*, misrepresented its financial statements including showing fictitious sales and purchases, misrepresented as well as omitted the information in Prospectus and the Letter of Offer and diverted the proceeds of IPO and Rights Issue. As already noted in Tables no. 7 and 8 above, a total of ₹18.98 crores from the IPO proceeds and ₹43.53 crores from Rights Issue proceeds have been siphoned/ diverted/ mis-utilized by the Company for purposes which were not envisaged in the Prospectus and Letter of Offer. Further, the misleading announcements, as noted above, had a direct impact on the price and volume of VCL, including the scrip hitting upper circuit on two different trading days. The said facts, clearly and unequivocally, prove that VCL induced the common investors to invest in its shares and diverted those funds subsequently. Further, the misleading announcements coupled with substantial decrease in promoter shareholding, also go on to prove that VCL was moving with an active *malafide* to defraud investors and manipulate the securities market.

111. In light of the aforesaid discussion, I find VCL to be in violation of the following:

    i. By misrepresenting the financial statements, prospectus and showing fictitious sales and purchases, Noticee no. 1 has violated Section 12A(a), (b) and (c) of the SEBI Act, regulations 3(a), (b),(c),(d) and 4(1), 4(2)(f), (k) and (r) of the PFUTP Regulations, regulation 24(1) of the ICDR Regulations, regulations 4(1)(a),(b),(c),(e),(g),(j), regulation 33(1)(a) and (c) and regulation 48 of the LODR Regulations read with Ind AS-1;

ii. By filing of incorrect Statement of Deviation pertaining to utilization of IPO proceeds, Noticee no. 1 has violated regulations 32(1), (4), (5) of the LODR Regulations;

iii. By mis-utilizing IPO and Rights Issue proceeds and diverting funds to promoter group entities, Noticee no. 1 has violated regulations 3(a),(b),(c),(d) and 4(1) of the PFUTP Regulations;

iv. By providing misleading information to the investors and stock exchanges regarding business acquisitions, Noticee no. 1 has violated regulations 4(1), 4(2)(f),(k) and (r) of the PFUTP Regulations; regulations 4(1)(c) and (e) of LODR Regulations;

v. By disclosing misleading quotation under Objects of Issue and non-disclosure of litigation in the Prospectus and Letter of Offer, Noticee no. 1 has violated regulation 24(1) of the ICDR Regulations.

112. Having established the violations committed by Noticee no. 1, VCL, I shall now deal with the written submissions and role of the remaining entities, including the directors and KMPs of VCL.

<u>Noticee no. 2 – Mr. Harshawardhan Sabale (Managing Director)</u>

113. Before dealing with the submissions made by Noticee no. 2, I deem it necessary to briefly delve into the nature, reliability and authenticity of submissions made by the Authorized Representative ("AR") of Noticee no. 2 on his behalf. The AR has filed a voluminous reply which runs into 235 pages and has relied upon a plethora of case laws (with citations) which, unfortunately, are not traceable. Without questioning the time and efforts put in by the AR of the Noticee no. 2, I am of the opinion that the response appears to have been generated with the assistance of artificial intelligence ('AI') tools/ agents. While in today's time and era, usage of AI may be encouraged for efficiency and multiple other reasons, one must tread cautiously while taking assistance of such tools/ agents. It is a given

understanding within the legal system/ framework that an advocate, in the interest of justice, must assist the judicial and quasi-judicial authorities in reaching the correct and just conclusion. In recent times, the Hon'ble Supreme Court and many Hon'ble High Courts have noted the concern of growing usage of AI in courts and usage of fabricated judgments. The Hon'ble Supreme Court in the matter of ***Gummadi Usha Rani & Another Vs. Sure Mallikarjuna Rao & Another***[14] has observed as under:

> *"7. We take cognizance of the Trial Court deploying AI generated non-existing, fake or synthetic alleged judgments and seek to examine its consequences and accountability as it has a direct bearing on integrity of adjudicatory process. At the outset, we must declare that a decision based on such non-existent and fake alleged judgments is not an error in the decision making. It would be a misconduct and legal consequence shall follow…*
>
> *8. Issue notice to the Ld. Attorney General, Ld. Solicitor General and the Bar Council of India."*

Further, Hon'ble Bombay High Court, in the matter of ***Mr. Deepak s/o Shivkumar Bahry Vs. Heart and Soul Entertainment Limited***[15] had observed as under:

> *"22. The Respondent has filed written submissions in February 2025 and April 2025. From the overall tenor of the written submissions and a few give-away features, such as green-box tick-marks, bulletpoint-marks, repetitive submissions etc., this Court strongly feels that the submissions are prepared using an AI tool such as Chat GPT or alike. A strong pointer is seen from a reference made to one alleged caselaw "Jyoti w/o Dinesh Tulsiani Vs. Elegant Associates". Neither citation is given nor a copy of judgment is supplied by the Respondent. This Court and its law clerks were at pains to find out this caselaw but could not find. This has resulted in waste of precious judicial time. If an AI tool is used in aid of research, it is welcome; however, there is great responsibility upon the party, even an advocate using such tools, to cross verify the references and make sure that the material generated by the machine/computer is really relevant, genuine and in existence. This Court finds that the Respondent has simply filed written submissions by signing them without verifying its contents. This practice of dumping documents / submissions on the Court and making the Court go*

[14] 2026 SCC OnLine SC 341

[15] 2026:BHC-AS:828

through irrelevant or non-existing material must be deprecated and nipped at bud. This is not assistance to the Court. This is a hurdle in swift delivery of justice. This Court will not take such practices kindly and it is going to result in costs. If an advocate is found to be indulging in such practice, then even stricter action of referring to Bar Council may follow."

114. As noted above, Hon'ble Supreme Court and the Hon'ble Bombay High Court have noted that usage of AI to cite fabricated case laws is a hurdle in delivery of swift justice and amounts to misconduct. In the present matter, the AR of the Noticee, *inter alia*, has relied upon the following judgments:

a. SEBI v. Ketan Parekh[16];
b. Indian Nut Products Limited Vs. Union of India[17];
c. S. Jaishankar Vs. State of Kerala[18];
d. Ratilal Vs. State of Bombay[19];
e. Indiran Vs. State of Tamil Nadu[20];
f. Union of India Vs. Nritya Guna Mudgal[21];
g. State of Punjab Vs. Davinder Singh[22];
h. Mafatlal Industries Ltd. v. Union of India[23]; and
i. Rupa Ashok Bajaj v. CIT[24]

115. The Noticee has relied upon the aforesaid judgments to buttress his various arguments. For instance, he has relied upon the *Ketan Parekh* order to argue that as per the Hon'ble Supreme Court, allegations of fraud require affirmative proof of five indispensable elements such as false representation, knowledge of falsity, intent to deceive, etc. While the arguments have been put forth using exemplary vocabulary and eye-catching legal verbose, it is upsetting to note that the cases quoted by the AR of the Noticee no. 2 are untraceable. Similarly, while the *Indian*

16 (2003) 4 SCC 91
17 (1994) 4 SCC 269
18 (2019) 6 SCC 476
19 (1954) SCR 1055
20 (1996) 3 SCC 231
21 AIR 2008 SC 2154
22 (1977) 4 SCC 606
23 (1997) 5 SCC 536
24 (2012) 3 SCC 184

Nut Products case is indeed a decision of the Hon'ble Supreme Court, Noticee no. 2 has grossly misquoted it. Noticee no. 2 has submitted that the Hon'ble Supreme Court in the *Indian Nut* case has held as under:

> "…*corporate governance lapses, procedural deficiencies, or documentation gaps may warrant administrative remediation and governance penalties, but cannot constitute personal fraud liability for directors absent proof of personal direction, personal direction, personal knowledge, and personal deceptive intent…*"

However, on perusal of the said order, I note that the case did not concern directors' liability, corporate fraud, or attribution of misconduct. It was decided in the context of the Kerala Cashew Factories (Acquisition) Act, 1974 and a constitutional challenge to state action under Article 32 of the Constitution. Therefore, I am of the view that Noticee no. 2 has misquoted and misplaced his reliance on the said case law.

116. Further, similar to the Ketan Parekh judgment, the S. Jaishankar, Indiran, Nritya Mudgal, Davinder Singh and the Rupa Ashok judgments were also not traceable with the corresponding citations mentioned in the submissions of Noticee No. 2. Even after investing substantial amount of time and efforts, the case laws quoted by the Noticee no. 2, along with the citations, were found to be non-existing. Additionally, while the judgments in the matter of *Mafatlal Industries* and *Ratilal* do exist, the said case laws are not at all relevant to the present set of facts.

117. Apart from the fabricated case laws, as noted above, the language of document submitted by the Noticee no. 2, demonstrates strong repetitions and multiple factual fallacies. The voluminous reply filed by Notice no. 2 also argues that the SEBI Act recognizes distinct violation categories triggering different procedural requirements and remedies. Category A violations encompass fraudulent violations under Sections 11B and 15H characterized by intentional deception of investors, market manipulation intent, etc. and Category B violations cover administrative violations. To state the obvious, the SEBI Act, as it stands, creates

no such distinction and the said argument of Noticee no. 2 has no logical or legal rationale. It appears that the AI tool used by the AR of Noticee no. 2 to draft the response mixed up the provisions of the existing SEBI Act with the proposed Securities Markets Code Bill. Similarly, it has also been submitted that regulation 23(6) of the LODR Regulations governs the pre-approval and disclosure for RPTs and that related parties be identified *as known as the time of transaction*. However, regulation 23(6) merely states that regulation 23 is prospective in nature. I note that the reply contains a lot of similar instances and examples where the reply submitted by Noticee no. 2 placed reliance on fabricated case laws, misquotes regulations and places on record blatantly incorrect facts.

118. In light of the above and keeping in mind the observations made by the Hon'ble Supreme Court and Hon'ble Bombay High Court, I note that the Noticee no. 2 and his AR, both, have shown a very lackadaisical approach in the matter and have failed to put in their bonafide efforts in the present quasi-judicial proceedings. The reply filed by Noticee no. 2 explicitly shows the level of seriousness (or lack thereof) of Noticee no. 2 towards the present proceedings. However, irrespective of the approach adopted by the Noticee no. 2 (and the AR), I am of the view that relevant contentions, if any, shall be dealt with appropriately, with proper application of mind in the interest of principles of natural justice. However, the case laws and contentions, which have no relevance to the present matter and are severely misplaced due to usage of the AI agent, shall not be entertained.

119. To start with, Noticee no. 2 has argued that the present proceedings are *void ab initio* on account of deliberate violation of the principle of *Audi Alteram Partum*. I note that the said contention of the Noticee no. 2 has no factual basis or legitimate rationale backing of the relevant facts. As noted above, Noticee no. 2 was granted an opportunity of personal hearing which was duly availed by him through his AR. I deem it necessary to note that, while hearing in the matter was scheduled on February 12, 2026, Noticee no. 2 had filed his reply on February 11, 2026 at 22:20 hrs. Further, during the course of the hearing, the AR of the Noticee was accorded

an opportunity to make oral submissions in the matter. However, the said opportunity was not utilized by the AR as he merely stated that he was very tired owing to finalization of the reply, which was submitted late in the night (a day before the hearing). The AR of Noticee no. 2 did not seek any adjournment of personal hearing but only requested time of four weeks to file post hearing submissions in the matter, which was acceded to. In light of these facts, I do not find any merit in the submission that there has been a violation of the principle *of Audi Alteram Partum*.

120. The Noticee has also argued that the continuation of the present proceedings is in direct contravention of Section 96 of the IBC. Section 96 of the IBC is reproduced below for ready reference:

> *"**Section 96. Interim moratorium***
>
> *1) When an application is filed under section 94 or section 95—*
>
> *(a) an interim-moratorium shall commence on the date of the application in relation to all the debts and shall cease to have effect on the date of admission of such application; and*
>
> *(b) during the interim-moratorium period—*
>
> *(i) any legal action or proceeding pending in respect of any debt shall be deemed to have been stayed; and*
>
> *(ii) the creditors of the debtor shall not initiate any legal action or proceedings in respect of any debt.*
>
> *(2) Where the application has been made in relation to a firm, the interim-moratorium under sub-section (1) shall operate against all the partners of the firm as on the date of the application.*
>
> *(3) The provisions of sub-section (1) shall not apply to such transactions as may be notified by the Central Government in consultation with any financial sector regulator."*

121. In this regard, I note that the contention of the Noticee about application of Section 96 of the IBC is not legally tenable as it is a settled position that the interim moratorium under Section 96 will not be applicable to the proceedings of the nature of the present proceedings. I note that Section 96 of the IBC imposes an interim moratorium in relation to debts, i.e., it stays legal action/ proceedings pending in respect of any debt. By contrast, proceedings under Section 11B of

the SEBI Act, 1992 are not debt recovery proceedings at all and the said proceedings are regulatory, preventive, remedial, and investor-protection measures exercised by SEBI in discharge of its statutory mandate to protect the interest of investors in securities market and ensure its integrity. In that light, the limited scope of the present proceedings is to adjudge the violations of securities laws committed by the Noticees, including Noticee no. 2. The purpose of the present proceedings is not to recover any pending debt from the said Noticee. In this regard, I place reliance on the decision of the Hon'ble Supreme Court in the matter of ***Rakesh Bhanot Vs. Gurdas Agri (P) Limited***[25] wherein the following was observed:

> *"23. Upon filing of the application under Section 94 IBC, a moratorium comes into effect, designed to protect the debtors from any legal actions concerning their debts. Specifically, Section 96 IBC provides that any legal proceedings pending against the debtor concerning any debt shall be deemed to have been stayed. The term "any legal action or proceedings" does not mean "every legal action or proceedings". In Sections 96(b)(i) and (ii), the term "legal action or proceedings" are followed by the term "in respect of any debt". The term "legal action or proceedings" would have to be understood to include such legal action or proceedings relating to recovery of debt by invoking the principles of noscitur a sociis.* ***The purpose of interim moratorium contemplated under Section 96 is to be derived from the object of the act, which is not to stall the proceedings unrelated to the recovery of the debt. The protection is not available against penal actions, the object of which is to not recover any debt.*** *This moratorium serves as a critical mechanism, allowing the debtor to reorganise their financial affairs without the immediate threat of creditor actions. The clear and unequivocal language of this provision reflects the legislative intent to provide a protective shield for debtors during the insolvency process."* (emphasis supplied)

[25] (2025) 6 SCC 781

122. Further, National Company Law Appellate Tribunal, in the matter of ***G. V. Marry Vs. Union Bank of India Stressed Assets management Branch and Others***[26] has held as under:

> *"The ratio fully supports the decision taken by Ld. Adjudicating Authority in treating the penalty imposed by SEBI as 'excluded debt', and hence it will not come to the rescue of the Appellant. In fact, the Hon'ble Apex Court in the said judgment has explicitly held that penalties imposed by the National Consumer Disputes Redressal Commission are regulatory in nature and arise due to non- compliance with Consumer Protection Laws, and hence the moratorium under Section 96 of the I & B Code, 2016, does not extend to them. The penalty imposed by SEBI will be similar, being of a regulatory nature, and hence will have to come within Section 79(15) of the Code. Since, the observation made in Para 16 of the impugned order was is in the light of the statutory provisions contemplated under Section 79(15)(a) of the I & B Code, 2016, treatment of penalty imposed by SEBI as 'excluded debt' cannot be said to be illegal in any manner whatsoever."*

123. Placing reliance on the aforesaid legal precedents, I am of the view that the Noticee no. 2 cannot seek shelter under Section 96 of the IBC and the present quasi-judicial proceedings fall outside purview of the said provision.

124. The Noticee has submitted that the interim order triggered a cascade of resignations leading to a governance breakdown. In this regard, I note that vide interim and confirmatory orders, directions were issued only against VCL and the MD, i.e., Noticee no. 2. other directors and the KMPs of the Company were not part of the said proceedings and no adverse directions were issued against them at that point of time. In that context, I am of the view that any entity which was following the requisite corporate governance measures and was being run in a bonafide manner, would have taken appropriate measures to present its case before the regulator. I note that pursuant to issuance of the *interim order,* the Company and Noticee no. 2 were accorded with an opportunity of hearing, however, the same was not availed by either. The conduct of the Company and

[26] 2025 SCC OnLine NCLAT 828

its MD, pursuant to issuance of the *interim order*, speaks volume about the state of affairs of the Company. In that light I am of the view that Notice no. 2's submission regarding SEBI's *interim order* having rendered the Company incapable and having caused governance breakdown holds no water.

125. The submission of the Noticee no. 2 that the interim order was issued without satisfying the essential pre-conditions is also misplaced. The interim order had provided adequate reasons justifying the issuance thereof. The relevant portion of the interim order is reproduced hereunder:

*"**Need for SEBI's Intervention:***

163. The genesis of the prima facie violations observed in the instant matter has its roots in the SME IPO of Varanium which thereafter continued through the bonus issue and stock split followed by the Rights Issue. It has prima facie emerged that the money raised through the IPO and subsequent Rights Issue was not used for the intended purpose mentioned in the offer documents.

Instead, the Promoter shifted part of IPO funds to an entity, BM Traders, and the end use of such funds is not known.

164. What has emerged clearly from the examination done by SEBI and NSE is the fact that Varanium through its Promoter, Mr. Harshawardhan Hanmant Sabale, spun an intricate web of apparently dubious transactions and tried to paint a picture that did not represent the fundamentals of the Company. The Company made public announcements meant to give an impression to unsuspecting investors that Varanium was a top-notch IT service provider that was entering greenfield areas.

165. In its effort to present such a picture, Varanium and its Promoter entered into transactions that appeared only on paper. Nothing was actually happening on ground and no economic activity was evident in any manner. No employment was generated as claimed by the Company.

166. *All the financial statements of Varanium are shrouded in questionable transactions. The balance sheet does not give a true picture of the affairs of the Company. Most of the sales and purchase transactions were mere ledger / book entries. The bank account statements of Varanium did not show up adequate credit / debit entries to support the claimed sales / purchases. The Company was unable to provide supporting documents backing the sales / purchase transactions.*

167. *In the entire sequence of events and the narrative built by the Promoter through public announcements, a positive sentiment was created which induced a large number of retail investors into purchasing the stock.*

168. *This presented an opportunity to the Promoter entities to exit the Company and reduce their stake significantly at the cost of gullible investors. The huge gains made by the Promoter as mentioned in Para 152 above clearly shows the intent and purpose behind such public announcements. Clearly, these actions benefitted the Promoter only. If this state of affairs is allowed to continue at Varanium, the investors' interest is likely to suffer. I thus find it a fit case to issue interim directions against the Company and its Promoter.*

169. *At the same time, retail investors need to exercise certain level of due diligence while investing in SME companies and not be swayed by seemingly attractive returns that may quickly come their way. In other words, investors need to be realistic and responsible about their return expectations."*

126. In light of the above, I find that the Noticee no. 2's submission as regards the interim order is not tenable.

127. The Noticee no. 2, in his reply, has also argued that the Prospectus was prepared by professional advisors and he, in his capacity as the MD, was entitled to rely upon the due diligence and expertise of these professionals. In this regard, I am

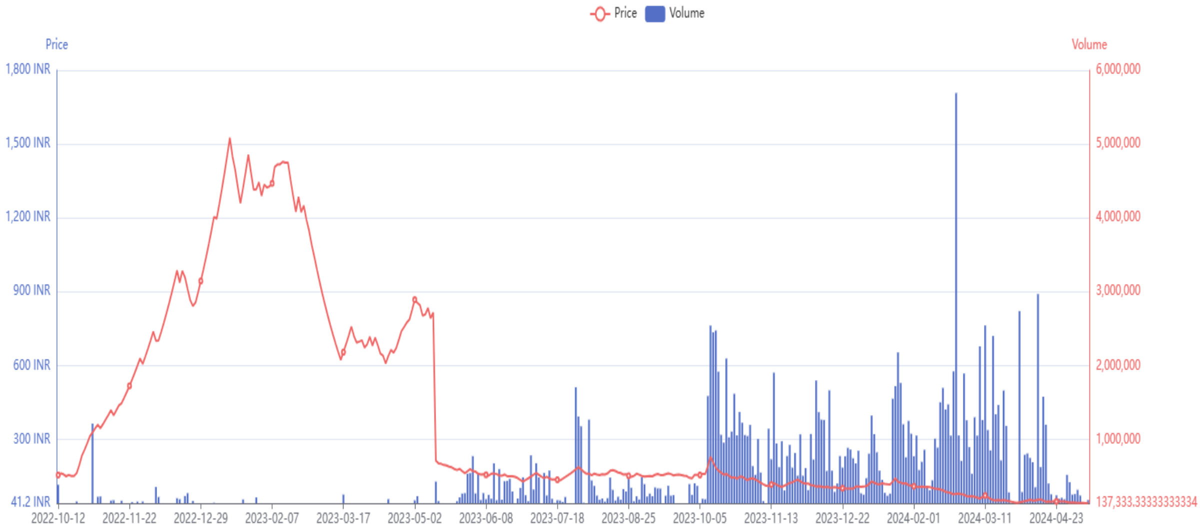
of the view that reliance on reports provided by professionals, such as the merchant banker, CA, etc., cannot offer a blanket defense to the MD of the Company. As the MD, Noticee no. 2, was at the center of all the events/developments and it is beyond reason that he was not aware of the pending litigations (the arbitral award and the order of the Hon'ble High Court were issued against Noticee no. 2 himself). It also cannot be accepted that as the MD, Noticee No. 2 was not aware about the fictitious transactions which have been established in the earlier part of the order. Even if one were to accept the argument that the Noticee no. 2 placed his reliance on due diligence of professionals, that alone cannot come to his rescue. Even with due diligence done by the other entities, if any, the MD of the Company, being involved in day to day affairs of the company, is reasonably expected to be aware of the affairs of his company, especially about the facts mentioned in the Prospectus and Letter of Offer about EDCs and EDLCs as well as the fictitious sale and purchase transactions shown by VCL. Noticee no. 2's defense that he relied upon professionals is, in my opinion, only an attempt to evade his liability. Noticee no.2's conduct, pre and post IPO, very strongly suggests that misinformation in the IPO Prospectus and the Letter of Offer of the Rights Issue, fictitious transactions with entities such as Amtelfone, were all within the knowledge of Noticee no. 2. Therefore, I am of the view that he cannot hide behind the defense of having relied upon the due diligence of other professional entities.

128. Noticee no. 2 has also argued that the allegation of fictitious sales of Amtelfone rests entirely on a post-facto statement by an accountant, Mr. Kamlesh Jain, and that the same is not legally sufficient to prove guilty mind. The malafide, fraudulent and corrupt nature of VCL's transactions with Amtelfone has already been established satisfactorily in the preceding paragraphs. It has already been noted and established above how Amtelfone did not have much digital presence, no documentary evidence was placed on record to establish the veracity of these transactions, and how the details of outstanding balances provided by VCL did not match with the ledger entries of Amtelfone in VCL's books, etc. Therefore, I note that the SCN has not merely relied upon the statement of Mr. Kamlesh Jain,

and there is sufficient material to establish the fact that VCL's transactions with Amtelfone (and other entities) were not bonafide and were fictitious in nature.

129. Noticee no. 2 has also argued that the SCN fails to allege the violations with a transaction date specificity and without the same, Noticee no. 2 cannot produce relevant documentation to counter the allegations. Similar to the aforesaid arguments raised by the Noticee, the present submission also appears to be an attempt by Noticee no. 2, Mr. Sabale to evade his liability. Noticee no. 2 has not brought out even a single piece of evidence to explain VCL's transactions with Amtelfone and multiple other entities. On the contrary, the SCN has, with requisite specificity and relevant evidence, alleged the fictitious nature of the transactions entered into by VCL which has already been discussed and established above. For instance, in case of Amtelfone, Noticee no. 2 has neither explained the fictitious transactions nor provided any explanation for the difference noted in the outstanding balance. In view of the above, I find that the argument of Noticee no. 2 that the SCN has levelled the allegations without specifying the transactions is without any merit.

130. The Noticee has also argued that the allegation of ill-gotten gains of ₹128.77 crores is a conclusory assertion devoid of transparent calculation methodology or investor-specific loss documentation. I note that the calculation methodology for taking ₹128.77 crores as unlawful gains has been discussed in detail in the SCN and the Investigation Report. I note that the shares held by promoter group entities were sold from November 28, 2022 to March 21, 2024. During the course of investigation, NSE had submitted its report on the Price Volume analysis ('PV analysis') of the scrip for the period September 27, 2022 to May 31, 2024. A graph of the said PV analysis is placed hereunder:



131. I note from the above graph that the price of the scrip opened at ₹131 on September 27, 2022, rose to ₹1526.15 on January 13, 2023 and closed at ₹17.75 on May 31, 2024. As per the report submitted by NSE, the promoters of VCL, i.e., Mr. Sabale and VNPL had traded in the scrip of VCL. Details of trading done by the said promoters are tabulated below and the gains made (calculated based on average acquisition price) by the said entities have been discussed thereafter:

Table No. : 23

Details of trading by promoter group and connected entities

(quantity and amount in ₹ cr.)

Client name	**Buy Qty**	**Buy Value**	**Sell Qty**	**Sell Value**
Varanium Networks Private Limited		-	0.14	17.95
Harshawardhan Hanmant Sabale	0.0143	13.76	1.30	131.46

132. As regards the average cost of acquisition of the equity share by promoters, in pre-IPO period, the Company has disclosed, in its Prospectus, that the shares were acquired at face value, i.e., ₹10 per share. The screenshot of the same is as follows:

N. Average cost of acquisition of shares for promoter:

Name of the Promoter	**No. of Equity Shares held**	**Average cost of Acquisition (in ₹)**
Harshawardhan Hanmant Sabale	55,76,327	10.00

133. Considering average cost of acquisition as above, the ill-gotten gains made by promoters have been recalculated as follows:

Table No. : 24

Profit earned by promoters group by trading in scrip of the Company

Particulars	**No of Shares**	**Harshawardhan Sabale (₹)**	**No of Shares**	**VNPL (₹)**
Sale Consideration	1,29,37,500	1,31,45,84,075.00	14,00,000	17,95,23,000.00
<u>Cost of acquisition for sold quantity</u>				
Purchased from secondary market before Split and Bonus - Qty 143000, at market price	5,72,000* (143000 x 4)	13,75,68,300.00	-	-
Purchase cost as per prospectus- ₹10 (adjusted for Bonus and Split Shares at ₹5)	1,23,65,500	6,18,27,500	14,00,000	70,00,000
Net gains		**1,11,51,88,275.00**		**17,25,23,000.00**
Total ill-gotten gains by promoter group		**₹ 1,28,77,11,275.00**		

134. I note from the material available on record that Mr. Sabale sold a total of 1,29,37,500 shares of VCL, for which he received an aggregate sale consideration of ₹1,31,45,84,075. Against this, his cost of acquisition for the shares sold has been determined as follows:

   a. an amount of ₹13,75,68,300, being the purchase value of 1,43,000 shares acquired from the secondary market prior to the split and bonus issue (subsequently adjusted to 5,72,000 shares post corporate actions); and

   b. an amount of ₹6,18,27,500, representing the acquisition cost of 1,23,65,500 shares at ₹10 per share as disclosed in the Prospectus (adjusted to ₹5 per share post-split and bonus issue).

135. Thus, the aggregate acquisition cost for Mr. Harshawardhan Sabale stood at ₹19,93,95,800, resulting in net gains of ₹1,11,51,88,275 from the impugned transactions.

136. Similarly, VNPL sold 14,00,000 shares, for which it received a total sale consideration of ₹17,95,23,000. Against this, the acquisition cost for the said shares, computed on the basis of the price disclosed in the Prospectus (₹10 per share, adjusted to ₹5 post corporate actions), amounted to only ₹70,00,000. Accordingly, the aggregate cost of acquisition for VNPL stood at ₹70,00,000, thereby resulting in net gains of ₹17,25,23,000. Further, I note that Noticee no. 2, Mr. Sabale, held a *99.99% stake* in VNPL and was therefore, in complete control and in charge of the said promoter group entity. Therefore, the gains made by VNPL are, in substance, gains accruing for the benefit of Noticee no. 2, who effectively controlled VNPL and was the beneficiary of any gains made by VNPL. Accordingly, it would be just and equitable to hold Noticee no. 2 liable for the unlawful gains made by VNPL and disgorgement of the entire amount from Noticee no. 2 would be justified.

137. In light of the above, the aggregate unlawful gains made by the promoter group entities, namely, Mr. Harshawardhan Sabale and VNPL, from the aforesaid sale of shares, are computed at ₹1,28,77,11,275 (Rupees One Hundred Twenty-Eight Crore Seventy-Seven Lakh Eleven Thousand Two Hundred Seventy-Five only). As noted earlier, the Company made multiple misleading corporate announcements which resulted in significant price and volume fluctuation and the promoter entities, viz., Mr. Sabale and VNPL, post listing of the shares of VCL, sold them to book gains which are unlawful in nature. Therefore, the argument of Noticee no. 2 that methodology for calculating the unlawful gains is not available on record is incorrect.

138. Further, the argument that SEBI is obligated to identify investor specific loss in case of disgorgement is also legally not tenable. The following observations of

Hon'ble SAT in the matter of ***Karvy Stock Broking Ltd. v. SEBI***[27] are noteworthy in this context:

> *"…Disgorgement is a monetary equitable remedy that is designed to prevent a wrongdoer from unjustly enriching himself as a result of his illegal conduct. It is not a punishment nor is it concerned with the damages sustained by the victims of the unlawful conduct. Disgorgement of ill-gotten gains may be ordered against one who has violated the securities laws/regulations but it is not every violator who could be asked to disgorge..."*

139. Additionally, the Explanation to Section 11B of the SEBI Act explicitly empowers SEBI *to disgorge an amount equivalent to the wrongful gain made or loss averted* by any entity. In light of the same, I note that there is no statutory mandate to individually identify the investors who have suffered loss in order to claw-back the unlawful gains made by an entity.

140. Noticee no. 2 has also submitted that the calculation of ill-gotten gains is further legally untenable as the SCN has failed to disregard the involuntary nature of sale of a majority of the shares (86%) by a third-party pledgee. In this regard Noticee no. 2 has also submitted the component wise share sales and gains table:

Table No. : 25

Component	**Shares**	**Estimated Proceeds**	**Estimated Gains**	**% of Total Gains**
Pledged Shares (VNPL) invoked by Pledgee	17,00,000	₹102-136 Cr	₹110.5 Cr.	86%
Voluntary sales by	80,00,000	₹47.4 Cr	₹18.27 Cr.	14%

[27] Order dated May 2, 2008

Noticee no. 2				
Total	**97,00,000**	**₹149.4 Cr**	**₹128.77 Cr.**	**100%**

141. The above submissions made by the Noticee no. 2 do not merit any further detailed examination, as they are devoid of any logical basis or cogent rationale. It is beyond understanding that while sale of 17,00,000 shares resulted in gains of ₹110.5 crores, sale of 80,00,000 shares merely resulted in gains of ₹18.27 crores. It is beyond any logic or rationale that Noticee no. 2 made lesser gains by selling almost 4.7x more number of shares. Neither it is Noticee no. 2's case, nor there is any material to show that the 80,00,000 shares (4.7 times of 17,00,000) were sold at a lower price than the 17,00,000 shares. Further, to state what has been consistently noticed, Noticee no. 2 has not submitted an iota of evidence to substantiate/ justify/ explain the aforesaid figures. In fact, he has not submitted any evidence whatsoever about the claim that the shares were sold by the pledgee either. Accordingly, Noticee no. 2's contention in that regard is liable to be dismissed.

142. Noticee no. 2 has also argued that statements of three KMPs, Mr. Kamlesh Jain, Ms. Hetal Somani and Mr. Mukundan Raghavan do not prove fraudulent intent on the part of Noticee no. 2. I note from the material available on record that Mr. Kamlesh Jain, an accountant at VCL, in his statement dated February 20, 2025, had unequivocally and clearly explained the state of affairs of the Company. Mr. Kamlesh had stated that Noticee no. 2 used to direct purchase, sale and journal entries without any supporting documents. Mr. Kamlesh had explicitly submitted that no invoices or other documents were shared by Noticee no. 2 for such entries. Similarly, Mr. Mukundan, the CFO of the VCL, in his statement dated February 5, 2025 had stated that he was not aware about the role of FOCL (the lead merchant banker for the IPO), he was not aware about the transactions with VNPL, VLPL, TLPL, CCL, Varanium Cloud INC (US Subsidiary), CRSL or about the product/ software purchased from ATL. Further, the CS of VCL, Ms. Hetal, in her statement dated January 30, 2025, has stated that Noticee no. 2 used to

withhold her salary if she did not follow his instructions. While the statement recording of the aforesaid individuals revealed the grave mismanagement in VCL and Noticee no. 2's role therein, Noticee no. 2, in his reply, instead of addressing these concerns with relevant evidence, has made a generic argument that these statements do not show fraudulent intent on his part.

143. In addition to the aforesaid statements, the material available on record, undeniably proves Noticee no. 2's role in diversion of proceeds of IPO and Rights Issue. Mr. Sabale was the sole authorized signatory of the concerned bank and approved the transfer of ₹15.46 crores (38.31% of the net IPO proceeds) and ₹4.20 crores (8.67% of net Rights Issue proceeds) to BM Traders. Noticee no. 2 authorized payments to ATL despite no evidence of work done or asset procurement. Noticee no. 2 diverted funds to VLPL, TLPL and VEPL (total ₹10.12 crores). Further, a total amount of ₹32.73 crores (from Rights Issue proceeds) was also transferred to his personal account. As already established above, the aforesaid transactions were not in line with the Prospectus / Letter of Offer and were, therefore, a deviation. While Noticee no. 2, in his reply, has submitted that transfer of funds to BM Traders was for acquisition of land parcels and that BM Traders was land acquisition liaison entity, he has failed to bring on record any material whatsoever in support of his submissions. I note from the material available on record that BM Traders received around ₹19 crores from the IPO and Rights Issue and ₹119.17 crores directly from personal account of Noticee no. 2. However, not even a single document or email or any other material has been brought on record by Noticee no. 2 to substantiate these transactions which are worth around ₹138 crores. In my opinion, the said facts, coupled with the recorded statements, prove beyond doubt that the Noticee no. 2 was involved in financial misstatements, revenue manipulation, diversion of public funds with an active malafide and fraudulent intent.

144. Noticee no. 2 has argued that CRSL has explicitly confirmed receipt of services from VCL and the financial numbers involved in the said transactions are verifiable from the ledgers maintained in the books of VCL. Further the presence

of TDS deduction entries in CRSL's response demonstrates conclusively that both VCL and CRSL had entered in legitimate business transactions. In this regard, I note that the allegations leveled in the SCN pertain to mismatch in the records maintained by VCL and CRSL and no allegation with respect to failure to provide services has been levelled in the SCN. On the contrary, as noted earlier in this order (at para 60), it has been established that while VCL may have provided certain services to CRSL, the maintenance of financial records was not transparent and accurate. While VCL claimed and disclosed that it was owed trade receivables to the tune of ₹2.37 crores, data received from CRSL showed that VCL owed ₹0.86 crores to VCL. I note that the Noticee no. 2 has not addressed the allegation levelled in the SCN and has failed to explain the disparity in numbers. In light thereof, I am of the view that the submission of Noticee no. 2 is misplaced and liable to be dismissed.

145. Noticee no. 2 has also argued that presence of 6 employees at the Panjim EDC center was consistent with the low labor operational model of automated data center. The said submission is in stark contradiction with the material available on record. For instance, the Noticee no. 2 in his reply has himself stated that there was comprehensive documented workforce of around 127-157 employees. However, as per the data collated from the actual site visits at the three EDC/ EDLC centers, there were 6 and 8 employees at the Panaji and Sawantwadi centers, respectively. Additionally, the Company had claimed that it had 107 employees at the Swantwadi center, however, the site visit revealed that only 8 employees were actually present. Therefore, I am of the view that the Noticee no. 2's submission as regards low labor operational model of EDC and EDLCs is not tenable.

146. Noticee no. 2 has also argued that the allegation in the SCN pertaining to Varanium Cloud INC (the US subsidiary) is not legally and economically sustainable as there is no proportional relationship between paid up capital and revenue generation capacity and a company can be validly incorporated with minimal capital and subsequently generate substantial revenue through debt

financing, equity assistance, and operational cash flow. However, similar to other submissions, Noticee no. 2 has failed to substantiate his argument with any evidence. While Noticee no. 2 has explained other possible sources of cash inflow, he has failed to establish the actual source of any such options which was exercised by Varanium Cloud INC. On the contrary, as noted above, the said subsidiary had 0 employees as on march 31, 2024, no details of the auditors were provided by the Noticee no. 2 and there are no other details of borrowings on record. Noticee no. 2 has also not provided any invoices, bank statements, etc. or any other material to help his cause and to establish that Varanium Cloud INC was a genuine entity with bonafide revenue. Therefore, I am of the view that the Noticee no. 2's submissions as regards generation of bonafide revenue through Varanium Cloud INC are baseless and cannot be accepted.

147. Further, it has been alleged in the SCN that vide summons dated December 06, 2024 and reminders dated December 18 and 31, 2024, Noticee no. 2 was advised to produce certain documents. However, Noticee no. 2 failed to comply with the said summons. In this regard, the Noticee no. 2 has submitted that his non-cooperation post July 24, 2024 must be evaluated in light of rejection of his bail application and within the context of his right to remain silent in terms of Article 20(3) of the Constitution of India. I am of the view that the said argument of the Noticee no. 2 does not hold any legal rationale and the applicability of Article 20 vis-à-vis power of SEBI to issue summons is a settled law. Hon'ble Punjab and Haryana High Court, in the matter of ***Multibagger Securities Research and Advisory Private Limited Vs. SEBI***[28] has observed as under:

> *"…If it is not made obligatory for the persons proceeded against by SEBI to cooperate with the investigation by furnishing information in person or producing documents in their possession (by enacting provisions like Sec.11(3), (5) and (6)) the whole purpose of empowering the SEBI to investigate, would come to a nought.*

[28] CWP NO. 18732 of 2022

…

In our opinion, the petitioner has not been able to show that powers conferred on the SBI (sic) by Sec.11 C (3), (5), (6) and (7) interfere or violate in any way and fundamental rights conferred upon the petitioners by Article 19(1) (a), 20(3) and 21 of the Constitution of India. Such powers are necessary to be exercised in public interest and to protect investors…"

148. As observed above by the Hon'ble Punjab and Haryana High Court, powers under Section 11C(3) of the SEBI Act are not in violation or contradiction of Article 20(3) of the Constitution of India and therefore, in my view, the Noticee cannot take shelter of Article 20 to evade the statutory liability for violation of regulating 11C(3).

149. Having dealt with the submissions, I deem it fit to now discuss the liability of Noticee no. 2., Mr. Harshawardhan Sabale, for violations committed by VCL, in terms of Section 27 of the SEBI Act. I note that the law regarding vicarious liability of the directors of a company is fairly settled. In case of Noticee no. 2, I note that, not only was he the MD of VCL, he was, as per his own submissions and as per other material available on record, actively involved in the core of things. At the cost of repetition, I note that Mr. Sabale received funds from the IPO and Rights Issue directly in his personal account, funds were transferred to BM Traders from his personal account and he solely authorized transfer of funds from the Company. As noted above, he was involved and present in all the violations committed by VCL. At this juncture, I deem it fit to refer to the decision of the Hon'ble Supreme Court in the matter of ***K.K. Ahuja vs. V.K. Arora***[29] wherein the Hon'ble Court had observed as under:

"…The settled position is that a Managing Director is prima facie in charge of and responsible for the company's business and affairs and can be prosecuted for offences by the company. But insofar as other directors are concerned, they can be prosecuted only if they were in charge of and responsible for the conduct of the company's business...

[29] 2009 10 SCC 48

…

There may be many directors and secretaries who are not in charge of the business of the company at all. The meaning of the words "person in charge of the business of the company" was considered by this Court in Girdhari Lal Gupta v. D.N. Mehta [1971 (3) SCC 189] followed in State of Karnataka v. Pratap Chand [1981 (2) SCC 335] and Katta Sujatha vs. Fertiliser & Chemicals Travancore Ltd. [2002 (7) SCC 655]. This Court held that the words refer to a person who is in overall control of the day to day business of the company. This Court pointed out that a person may be a director and thus belongs to the group of persons making the policy followed by the company, but yet may not be in charge of the business of the company; that a person may be a Manager who is in charge of the business but may not be in overall charge of the business; and that a person may be an officer who may be in charge of only some part of the business."

150. Applying the aforesaid observations of the Hon'ble Court to the present factual scenario, I note that Noticee no. 2, being the MD of the Company, was in charge of and was responsible for the acts of the Company and is therefore, also liable for the acts of the Company which were in violation of SEBI Act and relevant regulations.

151. In light of the above, I hold that the Noticee no. 2 is liable for the below-mentioned violations:

    i. By misrepresenting the financial statements, prospectus and showing fictitious sales and purchases, Noticee no. 2 has violated Section 12A(a), (b) and (c) of the SEBI Act, regulations 3(a),(b),(c),(d) and 4(1), 4(2)(f), (k) and (r) of the PFUTP Regulations, regulation 24(1) of the ICDR Regulations, regulations 4(1)(a), (b), (c), (e), (g), (j), regulation 33(1)(a) and (c) and regulation 48 of the LODR Regulations read with Ind AS-1 read with Section 27 of the SEBI Act;

    ii. By filing of incorrect Statement of Deviation pertaining to utilization of IPO proceeds, Noticee no. 2 has violated regulations 32(1), (4), (5) of the LODR Regulations;

iii. By mis-utilizing IPO and Rights Issue proceeds and diverting funds to promoter group entities, Notice no. 2 has violated regulations 3 (a),(b),(c),(d) and 4(1) of the PFUTP Regulations;

iv. By providing misleading information to the investors and stock exchanges regarding business acquisitions, Noticee no. 2 has violated regulations 4(1), 4(2)(f),(k) and (r) of the PFUTP Regulations; regulations 4(1)(c) and (e) of LODR Regulations;

v. By disclosing misleading quotation under Objects of Issue and non-disclosure of litigation in the Prospectus and Letter of Offer, Noticee no. 2 has violated regulation 24(1) of the ICDR Regulations.

vi. By failing to disclose the fact of disposal of shares of Company by the promoters, Noticee no. 2 has violated regulation 29(2) and (3) of the SAST Regulations;

vii. By not complying with the summons issued by SEBI, Noticee no. 2 has violated Section 11C(3) of the SEBI Act.

<u>Noticee no. 3 – Mr. Vinayak Vasant Jadhav - Executive Director</u>

152. Noticee no. 3, Mr. Vinayak Vasant Jadhav, was the Executive Director of VCL and was allegedly involved in misrepresentation of financial statements, Prospectus, fictitious sales and purchases etc. I observe from the submissions of the Noticee no. 3 that he has not responded to the allegations levelled in the SCN on merits and has only given generic submissions pleading his innocence. He has submitted that he was never involved in any financial, accounting or compliance related decisions of VCL and only worked as an IT manager. He has also submitted that he was appointed as a director on the discretion of Noticee no. 2 but never participated in or signed any financial statement, balance sheet, etc. knowingly. Further, he has not gained any benefit from the alleged misstatements and misrepresentations and he was not a part of the decision-making process. Noticee no. 3 resigned on October 1, 2024 after having lost the confidence in the management and functioning of the Company.

153. I have perused the submissions of the Noticee no.3 vis-à-vis the allegations levelled in the SCN and other material available on record. I am of the view that the bare submissions of Noticee no. 3 *sans* any documentary evidence do not help his case. Noticee no. 3 has been alleged to have been involved in misrepresentation of financial results by VCL, incorrect disclosure of Statement of Deviation and incorrect shareholding pattern. As noted above in this order, VCL (and the MD, Mr. Sabale) have been found guilty of, *inter alia*, misrepresentation of financial results and filing of incorrect Statement of Deviation.

154. I note from the material available on record that the digital signature of Mr. Vinayak was used to sign the balance sheets of VCL. Further, it is also noted that he failed to seek clarifications as regards the dramatic spike of 984% in the revenue of VCL and was not aware of any major clients or vendors of VCL. Further, it is Noticee no. 3's own admission that he was not involved in financial decision making. I note that it is a settled position that executive directors of a listed entity are expected to act with requisite due diligence and in the interest of investors. In terms of regulation 4(2)(f)(iii) of the LODR Regulations, members of the board of directors shall act in good faith, with due diligence and care and in the best interest of the listed entity and the shareholders. The acts of Noticee no. 3, as an Executive Director, in not questioning the affairs of the Company, digitally signing documents without proper due diligence and not getting involved in the financial decisions of VCL, were clearly in violation of the SEBI Act, ICDR Regulations and LODR Regulations. Further, as noted above, the misstatements of financial results, misstatement in Prospectus, misleading announcements, etc. were fraudulent acts. The act of signing the financial statements and prospectus without doing appropriate due diligence was an act which was a representation made in a reckless and careless manner and would fall within the ambit of the term *fraud* in terms of PFUTP Regulations. I also note from the material available on record that Noticee no. 3 had attended 28 (out of 30) board meetings in FY 2022-23.

155. In light of the above, I hold the Noticee no. 3, to be liable for below-mentioned violations:

i. By misrepresenting the financial statements, prospectus and showing fictitious sales and purchases, Noticee no. 3 has violated Section 12A(a), (b) and (c) of the SEBI Act, regulations 3(a),(b),(c),(d) and 4(1), 4(2)(f), (k) and (r) of the PFUTP Regulations, regulation 24(1) of the ICDR Regulations, Regulations 4(1)(a),(b),(c),(e),(g),(j), regulation 33(1)(a) and (c) and regulation 48 of the LODR Regulations read with Ind AS-1 read with Section 27 of the SEBI Act;

ii. By filing of incorrect Statement of Deviation pertaining to utilization of IPO proceeds, Noticee no. 3 has violated regulations 32(1), (4), (5) of the LODR Regulations;

Noticee no. 11 – Mr. Fahim Iunus Shaikh- Executive Director

156. The SCN has alleged that, Noticee no. 11, Mr. Fahim, was an executive director and a signatory to IPO prospectus which contained material omissions and misstatements. Mr. Fahim, in this regard, has submitted that he was Executive – Projects and Logistics with VCL and never performed any activities/ duties as director in VCL. Mr. Fahim has further submitted that his digital signature was in possession of Noticee no. 2 and on being made aware that his digital signature was misused, he had filed a police complaint. I note that the said complaint was made by Noticee no. 11 on October 14, 2024, i.e., post issuance of the interim order. In my opinion, filing of such a complaint, post issuance of the interim order in 2024 (where the violations pertain to an earlier period of 2022 onwards) cannot come to the rescue of Mr. Fahim. I note that no other material has been brought on record to suggest that Mr. Fahim was not in possession of his digital signature during the relevant period and did not sign the Prospectus voluntarily.

157. I note that Noticee no. 11, Mr. Fahim, has not filed a reply on merits of the matter and has only filed generic written submissions pleading his innocence. As noted above in the case of Noticee no. 3, Mr. Vinayak, the duties of an executive director of a company include acting in good faith and performing appropriate due

diligence. Being an executive director, Mr. Fahim was reasonably expected to perform requisite due diligence before signing the IPO prospectus which, as established above, contained omissions and misstatements. I note that Noticee no. 11 had also attended 28 (out of 30) board meetings in the FY 2022-23 which further goes on to show that the Noticee no. 11 was involved in day-to-day affairs of VCL and was in charge and responsible for the affairs of VCL.

158. In light of the above, I find Noticee no. 11, to be in violation of the following:

i. By misrepresenting the financial statements, prospectus and showing fictitious sales and purchases, Noticee no. 11 has violated Section 12A(a), (b) and (c) of the SEBI Act, regulations 3(a),(b),(c),(d) and 4(1), 4(2)(f), (k) and (r) of the PFUTP Regulations, regulation 24(1) of the ICDR Regulations, Regulations 4(1)(a),(b),(c),(e),(g),(j), regulation 33(1)(a) and (c) and regulation 48 of the LODR Regulations read with Ind AS-1 read with Section 27 of the SEBI Act;

Noticee no. 4 – Mr. Mukundan Raghavan (Chief Financial Officer)

159. Noticee no. 4 was the Chief Financial Officer of VCL and has been alleged to have misrepresented the financial statements and prospectus and fictitious sales and purchases. In this regard, Noticee no. 4 has submitted that he joined VCL as Head – Networks in 2019. At the request of the management, he had assumed the title of CFO with the understanding that, in due course, a suitably qualified finance head would be appointed. Noticee no. 4 has also submitted that pursuant to becoming a CFO, he did not gain any monetary benefits, did not exercise decision making authority and there was no change in his salary structure either. Further, the receipt, utilization and oversight of IPO proceeds were managed by the MD (Noticee no. 2), and Noticee no. 4 was not involved in the operational or financial management.

160. I have perused the submissions made by the Noticee no. 4 and I am of the view that the breach of duty from Noticee no. 4, in his capacity as the CFO, is not only

explicit from the material available on record but also from his own admissions. While the Noticee no. 4 has argued that he has not gained any financial benefits (apart from the salary income), it is not in dispute that he, *inter alia*, signed the Prospectus, balance sheets, failed to question/ investigate the 984% spike in revenue in FY 2022-23, failed to examine invoices related to ATL, was unaware of transactions with Amtelfone (despite the same accounting for 85.10% sales of VCL in FY 2022-23), had no knowledge of transactions with CRSL, CCL and other entities.

161. I note that in terms of regulation 2(1(f) of the LODR Regulations, "chief financial officer" or "whole time finance director" or "head of finance", shall mean the person heading and discharging the finance function of the listed entity as disclosed by it to the recognized stock exchange(s) in its filing under LODR Regulations. As established above, VCL, *inter alia*, filed the Prospectus (signed by the CFO) which contained material misstatements and omissions and also showed fictitious sales and purchases. I note that as the CFO, Noticee no. 4, was duty bound to ensure that the financial disclosures made by VCL were kosher and reflected a true and fair picture of the financial state of the Company. However, by affixing his signature to the Prospectus (which contained material omissions and mis-statements) and the financial statements (which were not true and fair) and by not questioning the transactions, which have been established to be not in accordance with the relevant provisions of the SEBI Act and other applicable laws, the Noticee no. 4, in my opinion, has failed in his duties as the CFO of the Company. The defense put forth by the Noticee that he had assumed the title of CFO with the understanding that, in due course, a suitably qualified finance head would be appointed, does not come to his avail since he took up the said responsibility with his own choice despite no increase in salary. It is not the case of the Noticee that he was unaware as to what the role of a CFO would entail or that he did not know at all that he was appointed as a CFO.

162. In light of the above, I find Noticee no. 4, to be in violation of the following:

i. By misrepresenting the financial statements, prospectus and showing fictitious sales and purchases, Noticee no. 4 has violated Section 12A(a), (b) and (c) of the SEBI Act, regulations 3(a),(b),(c),(d) and 4(1), 4(2)(f), (k) and (r) of the PFUTP Regulations, regulation 24(1) of the ICDR Regulations, Regulations 4(1)(a),(b),(c),(e),(g),(j), regulation 33(1)(a) and (c) and regulation 48 of the LODR Regulations read with Ind AS-1;
ii. By filing of incorrect Statement of Deviation pertaining to utilization of IPO proceeds, Noticee no. 4 has violated regulations 32(1), (4) and (5) of the LODR Regulations.

<u>Noticee no. 5 – Ms. Hetal Somani (Company Secretary and Compliance Officer)</u>

163. The SCN has alleged that Noticee no. 5, Ms. Hetal Somani, as the CS and the Compliance Officer of the Company had failed to disclose the utilization of IPO and Rights Issue proceeds and also failed to disclose the correct shareholding pattern of promoter and public shareholders.

164. As regards the allegations that she failed to disclose the utilization of IPO and Rights Issue proceeds, I note from the material available on record that a Statement of Deviation was filed by the Company on November 17, 2023 and the said fact is not in dispute. Accordingly, I am of the view that the allegation pertaining to non-disclosure of utilization of IPO and Rights Issue proceeds is without any factual basis.

165. As regards the Noticee no. 5's liability for failure to disclose the correct shareholding pattern, I note that the SCN has failed to bring on record the relevant provisions which have been allegedly violated. The SCN has alleged the violation of regulation 6(2)(a) read with regulation 32(1), (4) and (5) of the LODR Regulations for disclosing incorrect shareholding pattern. However, regulation 32 of the LODR Regulations deals with Statement of Deviation and does not impose any independent obligation upon the CS to file the correct shareholding pattern.

166. The material available on record does not explain or justify as to how the CS was responsible for filing of incorrect shareholding pattern. Neither the appropriate incriminating facts have been brought on record, nor appropriate provisions have been invoked. Without prejudice to the above, even if it was Noticee no. 5's responsibility to ensure the correctness of the shareholding pattern, as noted above in para 106, the allegation pertaining to incorrect disclosure of the shareholding pattern has been dismissed *qua* other Noticees on account of lack of any supporting evidence.

167. In light thereof, without going into the submissions made by Noticee no. 5, I find the material available on record to be not adequate to sustain the allegations levelled in the SCN *qua* her.

<u>Noticee no. 12 – Mr. Kalpesh Acharekar (Non-executive Director Non-Independent Director)</u>

168. The allegation in the SCN with respect to Noticee no. 12, Mr. Kalpesh, is that he was a signatory to the prospectus which contained material misstatements and omissions. On account of being a signatory, Noticee no. 12, has been alleged to have assumed responsibility for misstatements and the omissions of the Prospectus.

169. In this regard, I note that it is settled law that an independent director or non-executive director shall be held liable only in respect of such omission or commission by a company which had occurred with his knowledge, connivance or consent, attributable through Board process, or where he had not acted diligently. This approach has been time and again approved by various Courts/Tribunals. For instance, the Hon'ble SAT, in the matter of ***Inventure Growth and Securities Limited and others vs. SEBI***[30] ('Inventure matter') has held as under:

[30] Decided on October 10, 2019

"32. In para no.5 of the decision, this Tribunal has noted that the appellant therein were independent directors and were not involved in the day to day management and control of the Company. In the circumstances, the argument of the respondent SEBI that they had put their signatures in the prospectus were taken into consideration. It was finally concluded that disclosures could not be attributed to them as they were independent director and they were not associated in the day to day management or control over the Company. In the circumstances, the appeal was allowed.

33. The appellants in Appeal no.362 of 2018 are also independent directors. In Appeal no.361 of 2018, we find the Company had Whole Time Directors, Managing Directors etc. Considering all these facts on record in our opinion appellant in Appeal no.362 of 2018 cannot be held responsible for the non disclosure as detailed above."

170. Similarly, Hon'ble SAT in the matter of ***Adesh Jain vs. SEBI***[31] has held as under:

"…There is no finding that the credit agreement and the account charge agreement were in the knowledge of the appellant. On the other hand, it is the consistent case of the appellant that he was a practicing chartered accountant and a non- executive independent director…

16. We are further of the opinion that liability cannot be mechanically fastened merely because the Appellant was an independent director and present in a board meeting. It is submitted that when a director is not in charge or responsible for the affairs of the company, no adverse inference can be drawn merely for attending a meeting."

171. Accordingly, it is a settled position of law that a non-executive director cannot be held liable for violations committed by the company, except in cases where there is an active involvement in the day-to-day affairs and the acts were done with the consent/ connivance of the concerned non-executive director. In the present case, the material available on record does not explain that Noticee no. 12, as a non-executive director, was involved in day-to-day affairs of VCL and that the

[31] Decided on January 6, 2023

violations were committed with his consent or connivance. While the record suggests that he was indeed a signatory to the Prospectus, that fact alone, as held by Hon'ble SAT in above quoted judgments, is not enough to hold Noticee no. 12 liable for violations alleged in the SCN. Accordingly, the allegations levelled against Noticee no. 12 in the SCN are hereby dismissed.

<u>Noticee no. 6 – First Overseas Capital Limited (Lead Manager)</u>

172. The SCN has alleged that Noticee no. 6, FOCL, the lead manager for the IPO of VCL had failed to exercise due diligence and proper care in the preparation of Prospectus and also failed to disclose the pending litigations. Noticee no. 6, in this regard, has primarily argued that no adverse observations have been made *qua* the Noticee no. 6 in the interim order; it had very limited scope of assignment and a limited mandate; its primary duties were to ensure proper disclosure, managing allotment process and overseeing funds and that it was bound to rely upon the financial statements, corporate records and management representations. The Noticee no. 6 has also submitted that it was only expected to ensure reasonable care and could not have conducted a forensic audit as a merchant banker. Noticee no. 6 has also submitted that it had relied upon the expertise of Independent Auditor (Garg Goel & Co.), Valuer (AAA Valuations Professionals LLP) and legal counsel (TMT Law Practice). FOCL also submitted that it did not merely accept VCL's statements, and the due diligence process involved multi-layered verification of material documents.

173. I have perused the submissions of FOCL vis-à-vis the material available on record. At the outset, I deem it necessary to bring on record the exact role played by FOCL in the IPO of VCL. As admitted by FOCL itself and noted from the material available on record, FOCL had a very limited role to play in the entire IPO process. FOCL has itself admitted ACAPL and Mr. Jinesh Mehta (Noticees no. 7 and 8 respectively) assisted VCL in IPO documentation, pre-IPO fundraising, valuation of IPO etc. and FOCL had a very-very limited role to play. A merchant banker, specifically the lead manager, plays a very crucial role in the entire IPO process. The duties imposed upon the lead manager are very wide

and require the lead manager to conduct appropriate due diligence at every stage. However, as per Noticee no. 6's own admission, its role was limited to disclosure, allotment process and overseeing funds. As a SEBI registered intermediary, FOCL is duty bound to follow the relevant provisions of law, not only in letter but also in spirit. By delegating and deflecting its own duties as the lead manager of the issue, FOCL has failed to act in the best interest of the investors. In this regard, I deem it fit to refer to the decision of the Hon'ble SAT in the matter of ***M/s Keynote Corporate Services Limited Vs. SEBI***[32] wherein following was held:

> *…BRLM, in carrying out its functions is generally expected to act in an independent and professional manner and should not rely only on issuer company to provide them with updates, if any. Due diligence on part of Merchant Banker does not mean passively reporting whatever is reported to it but to find out everything that is worth finding out. It is about making an active effort to find out material developments that would affect interest of investors. It is on faith that intermediary has conducted due diligence with utmost sincerity that investing public goes forward and decides to invest in a particular company…*

174. In terms of Clause 2 and 4 of Schedule III of the MB Regulations, a merchant banker shall maintain high standards of integrity, dignity and fairness in the conduct of business and shall at all times exercise due diligence, ensure proper care and exercise independent professional judgment. In the present matter, undisputedly, FOCL has not discharged its functions as the lead manager of the issue and the entire issue was handled by an unregistered entity i.e., ACAPL. As the lead manager, FOCL was obligated to undertake all reasonable efforts for carrying out thorough due diligence to ensure adequate and truthful disclosures in the Prospectus of VCL. The fact that FOCL was the official lead manager was most certainly a relevant fact for investors deciding to subscribe to the IPO of VCL.

[32] Decided on February 19, 2014

175. FOCL, in its defense, has also submitted that it relied upon reports of Auditors, Valuers and legal team. However, I note that the valuation report relied upon by FOCL was prepared at the request of promoters and directors of VCL and was possibly shared with FOCL by VCL or ACAPL. FOCL did not undertake any independent examination to check the veracity of the said report. Similarly, while FOCL has submitted that it has relied upon report prepared by a law firm for litigation disclosures, no evidence to that effect has been brought on record. FOCL has only submitted an invoice issued by the said law firm but has not placed on record any report which was actually relied upon by it. As regards FOCL's reliance on the Statutory Auditor's report, I note that FOCL has submitted reports prepared and signed by the auditor in the years 2019 and 2020. FOCL has failed to explain as to in what manner the said reports were relied upon by it while conducting its due diligence for preparation of the Prospectus. In light thereof, I do not find any merit in the submissions made by Noticee no. 6.

176. In light of the above, I find Noticee no. 6, FOCL, to be in violation of the following:

i. By failing to exercise due diligence and proper care in preparation of the prospectus, Noticee no. 6 has violated clauses 2 and 4 of Schedule III read with Regulation 13 of MB Regulations, Clause 2(c) of Form A of Schedule V read with Regulation 24(3) and 25(2)(b) of the ICDR Regulations;

ii. By failing to disclose the pending litigations, Noticee no. 6 has violated Clause 12 of Schedule VI read with regulation 24(1) of the ICDR Regulations.

<u>Noticees no. 7 and 8 – ACAPL and Mr. Jinesh Mehta</u>

177. It has been alleged in the SCN that ACAPL and Mr. Jinesh Mehta aided and abetted the Company in making the misrepresentations which were fraudulent in nature and received ₹2.50 crores from VCL as fees. Noticees no. 7 and 8, in this regard, have submitted that ACAPL merely liaised with VCL in collating documents required for IPO process and all the documents were provided to FOCL for further regulatory process. It has also been submitted that ACAPL was not involved in pre-IPO placement or managing investor interactions.

178. It is noted that ACAPL and Mr. Jinesh Mehta have failed to bring on record any material to justify the huge sum received by them from VCL. The material available on record reveals that ACAPL received ₹2.50 crores as fees from VCL which was a substantially higher than the amount received by the lead manager, FOCL (₹11 lakhs). No explanation has been placed on record by ACAPL to justify the receipt of the said amount and it has only submitted, vide reply dated November 10, 2025, that the said amounts were received through appropriate banking channels. Additionally, recorded statements of the statutory auditor, MD of FOCL, Company Secretary and Mr. Pratik Shah (Independent Director and Audit Committee Chairman) also unanimously suggest that ACAPL had substantial influence over the IPO process. In this regard, Mr. Jinesh Mehta, in his statement dated January 29, 2025 has himself admitted that certain parts of the Prospectus were indeed drafted by him and that he helped with fund raising in pre-IPO and IPO stages. While ACAPL has denied the allegations of being involved in the IPO process and has denied the testimonies of Mr. Hitesh Shantilal (Statutory Auditor), Mr. Satyen Dalal (MD of FOCL), Ms. Somani (CS and Compliance Officer) and Mr. Pratik Shah (Independent Director and Audit Committee Chairman), it has not addressed the admissions made by Mr. Jinesh in his statement dated January 29, 2025.

179. I note from the material available on record, including the submissions made by ACAPL and Mr. Jinesh, that while ACAPL was not a SEBI registered merchant banker, it performed key functions which are typically handled by a registered merchant banker.

180. Regarding the receipt of ₹2.5 crore (approx.) from VCL, while ACAPL has submitted that it received the funds through appropriate banking channels, it has failed to bring on record any material which justifies receipt of such high amount.

181. In light of the said facts, I am of the view that Noticees no. 7 and 8 were involved and assisted the Company in misrepresenting its financials in the Prospectus which misled the investors.

182. Accordingly, I find Noticees no. 7 and 8 to be in violation of the following:
    i. By aiding and abetting the Company in making misrepresentations in the Prospectus, Noticees no. 7 and 8 have violated Section 12A (a), (b), (c) of SEBI Act, Regulations 3 (a), (b), (c), (d) and 4(1) of the PFUTP Regulations.

Noticee no. 9 – Raj Jagtani, Proprietor of BM Traders

183. The SCN has alleged that Raj Jagtani, Proprietor of BM Traders, aided and abetted Noticee no. 1 in the fraudulent scheme to siphon off the proceeds of IPO and Rights Issue. Further, Noticee no. 9 is also alleged to have not complied with summons issued by SEBI. In this regard, Noticee no. 9 has broadly submitted that he had a very limited association with VCL and payments received from VCL were used to make payments to local vendors, intermediaries and facilitators and the said funds were not used for personal benefit/ gains.

184. I note from the material available on record that BM Traders received ₹15.46 criers (38.31% of net IPO proceeds) and ₹4.20 crores from the Rights Issue proceeds (8.67% of net Rights Issue proceeds). Additionally, BM Traders also received ₹119.17 crores from the personal account of Noticee no. 2, Mr. Sabale. In that context, I am of the view that any professional utilization (hiring of local vendors, payments made to other entities, etc.) of such large amount of sums ought to have been made pursuant to some sort of formal arrangement/ agreement. Neither Noticee no. 9 nor Noticee no. 2 have placed on record a single piece of evidence to substantiate the submissions that these transfers were *bonafide* business decisions. No agreements, mails, MoU, or any other correspondence has been brought on record to even suggest that these funds were used in a bonafide manner. On the contrary, records reveal that BM Traders (Proprietor – Mr. Raj Jagtani) was in the wholesale business of fruits and

vegetables (as per UDYAM Registration Certificate) and BM Trader's reported income for the AY 2023-24 was merely ₹6,47,200. Statements of Mr. Hitesh Shantilal (Statutory Auditor) and Mr. Kamlesh Jain (Accountant of VCL) revealed that the said payments were not backed by verifiable work or genuine expenses. Mr. Hitesh did not receive any approvals or documents for verification of payments to BM Traders and relied only on the work contract provided by Noticee no. 2 and Mr. Kamlesh made accounting entries on instructions from the management without verifying if BM Traders performed any actual work. Further, ledger entries of BM Traders revealed that there were no recorded expenses or revenues. Additionally, BM traders, in its reply, has not provided any supporting invoice, project progress report, site verification document, etc. to explain the receipt of funds from VCL and Noticee no. 2.

185. I further note that out of ₹19.66 crores received from the IPO and Rights Issue proceeds, BM Traders transferred ₹15.60 crores to the below-mentioned entities:

Table No. : 26

Fund Trail of Proceeds from IPO and Rights issue from BM Traders

Sr. No.	Name of the Beneficiary	Amount (in ₹ Crore)
1	Gulf Forex and Travel	5.86
2	Marvel Corporation	2.94
3	Revo Traders	2.49
4	Tesla Developers	1.70
5	Blue Fly Express	1.00
7	Madhuson Exports	0.81
8	Antelope Shipping	0.80
	Total	**15.60**

186. While the aforesaid onward siphoning-off has not been addressed by Noticee no. 9 (or Noticee no. 2), it is very clear that the said onward transfers were not made to local vendors and were instead made to other entities. I note that more than around ₹138 crores were received by BM Traders (Proprietor - Raj Jagtani). Mr. Raj Jagtani, Proprietor of BM Traders, apart from making generic submissions, has failed to place on record any evidence to substantiate the

utilization of said funds. In light of the same, I find that BM Traders aided and abetted VCL and Noticee no. 2 in siphoning off the funds.

187. It has also been alleged that Noticee no. 9 had failed to comply with SEBI summons. Noticee no. 9 has not made any submissions in that regard. I note that vide summons dated December 31, 2024 and reminders dated January 10, 2025 and March 7, 2025, Noticee no. 9 was advised to make a personal appearance before the Investigating Authority, however, he failed to do the same. Accordingly, the said allegation stands established.

188. It has further been alleged that vide summons dated February 14, 2025 and reminders dated February 24 and 28, 2025, Noticee no. 9 was advised to provide his financial dealings with VCL. However, only the ledgers of VCL, VLPL and VNPL were provided by Noticee no. 9 and no other documentation was provided. The same was allegedly in violation of Section 11(2)(ia) of the SEBI Act which, *inter alia*, empowers SEBI to call for relevant information and records from any person. I note from the material available on record that vide summons dated February 14, 2025, Noticee no. 9 was specifically advised to provide, *inter alia*, documents detailing the nature of business operations, agreements, contracts, invoices related to transactions between BM Traders and VCL, bank statements reflecting payments received from VCL, etc. However, I note that Noticee no. 9 only submitted ledger entries of VCL and failed to provide any response with respect to the other documents. In that light, I am of the view that Noticee no. 9 has failed to provide information and documents sought by SEBI in terms of Section 11(2)(ia).

189. In light of the above, I find the Noticee no. 9 to be in violation of the following:

i. By aiding and abetting VCL in siphoning off the funds of Rights Issue and IPO, Noticee no. 9 has violated Section 12A(a), (b) and (c) of the SEBI Act read with Regulations 3 (a),(b),(c),(d) and 4(1) of the PFUTP Regulations;

ii. By failing to comply with summons issued by SEBI, Noticee no. 9 has violated Sections 11(2)(ia) and 11C(3) of SEBI Act.

CONCLUSION

190. As recorded in the foregoing paragraphs, the Company, its MD, its Executive Directors and CFO (i.e., Noticees no. 1, 2, 3, 4 and 11) have been held liable for the misrepresentations and misstatements contained in the Prospectus, non-disclosure of pending litigation in the Letter of Offer and mis-utilization of IPO and Rights Issue proceeds. Noticees no.1 and 2 have also been found liable for publishing misleading information. Noticees no. 7 and 8 (i.e., the entities who performed the functions of a merchant banker without being registered as such) aided and abetted Noticee no. 1 by misrepresenting the contents of Prospectus. Noticee no. 9 (i.e., the unexplained recipient of around ₹138 crores) aided and abetted Noticee no. 1 in the siphoning-off of funds. Lastly, Noticee no. 6 (i.e., the merchant banker who failed to perform its functions) failed to exercise due diligence and proper care in the preparation of Prospectus and to disclose the pending litigations.

191. Further, for the reasons discussed earlier, the allegations against Noticees no. 5 and 12 do not sustain and are therefore dropped.

192. To summarize the fraudulent scheme: VCL, spearheaded by Mr. Harshawardhan Sabale, raised funds from public investors with the claimed objective of expanding its business, including the establishment of Data Centers and Digital Learning Centers. However, none of the money raised went where it was said to go. It was diverted instead and siphoned off to Mr. Sabale's personal account, to group entities (such as VNPL, VEPL, etc.) and to other entities (such as BM Traders). The amounts involved are substantial, running into crores of rupees, and yet not a single entity implicated in these transfers has been able to produce documentary evidence to justify them.

193. Mr. Harshawardhan Sabale, Managing Director of the Company, sat at the center of this design. He held 99.99% of VNPL and VEPL, personally controlled the

transfer of funds out of VCL and received ₹32.73 crore of the Rights Issue proceeds directly into his own account. Post-listing, VCL also reported a sharp rise in revenue, driven almost entirely by sales to a single offshore entity (Amtelfone Incorporated) with no verifiable operations — a further limb of the same design. Additionally, Mr. Sabale made unlawful gains of ₹128.77 crore by trading in the shares of VCL on the back of this manufactured picture. Taken together, this was fraud on a considerable scale, executed brazenly with evident deliberation.

194. While Mr. Sabale was the central figure, I am of the view that the fraudulent scheme of this scale does not run on one signature. The KMPs namely, Mr. Vinayak Vasant Jadhav, Mr. Mukundan Raghavan and Mr. Fahim Iunus Shaikh, have submitted that they were not involved in the Company's day-to-day affairs and that Noticee no. 2 alone managed the affairs. I am of the view that, *inter alia*, their own signatures on the documents such as Annual Reports and the Prospectus tell a different story. I am inclined to accept that their degree of involvement was narrower than that of Mr. Sabale; but narrower is not absent. The said KMPs failed in their duties by affixing their signatures to documents such as Prospectus and Annual Report. As Directors on the Board, Mr. Vinayak and Mr. Fahim ought to have taken care, as expected from an executive director, while managing the affairs of VCL. Similarly, Mr. Mukundan, as CFO owed a duty to ensure that the financials placed before the public investors were bonafide. They may not have been the masterminds, but they made the scheme possible.

195. Neither the Company nor the KMPs have produced any evidence, during investigation or in these proceedings, to rebut the allegations or demonstrate the *bona fide* nature of any transaction. VCL has not filed a reply on merits at all. Mr. Sabale has filed a reply apparently generated with the assistance of an AI agent which contains scattered submissions, and cites case laws that are either non-existent, exist but don’t contain the text quoted by the Noticee or are totally out of

context and without merit. The remaining KMPs have also failed to address the matter on its merits, resting instead on bare denials.

196. Having adjudged the violations set out in the SCN and found the Noticees liable, as noted above, this is a fit case for issuance of appropriate directions as well as imposition of penalty. At the juncture, it is relevant to note from the material on record that Noticees No. 3, 4 and 11, even though found to have failed in performing their duties as executive directors and CFO, have not made any monetary gains other than their respective salaries. The same shall be regarded as a mitigating factor while determining the directions and monetary penalty to be imposed on them.

197. As regards imposition of monetary penalty, I note that Section 15J of the SEBI Act lays down the factors which shall be given due regard while adjudging the quantum of the penalty. Section 15J reads as under:

> *"15J. While adjudging quantum of penalty under 15-I or section 11 or section 11B, the Board or the adjudicating officer shall have due regard to the following factors, namely: —*
>
> > *(a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
> > *(b) the amount of loss caused to an investor or group of investors as a result of the default;*
> > *(c) the repetitive nature of the default.*
>
> *Explanation. —For the removal of doubts, it is clarified that the power to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section."*

198. As noted above, Noticees no. 1, 2, 3, 4 and 11 have been found to be involved in the misrepresentation of contents in the Prospectus and non-disclosure of pending litigation in the Letter of Offer and the subsequent siphoning-off of public issue proceeds to the tune of ₹18.98 crores from IPO proceeds and ₹43.53 crores from Rights Issue proceeds. Noticee no. 2, by trading in the scrip of VCL, has also made unlawful gains to the tune of ₹128.77 crores. Similarly, Noticees no. 7

and 9 have also made significant gains and received monies from Noticee no. 1 and/or 2. In my view, the facts of the matter demand that appropriate penalty is imposed in the matter.

199. Further, I note from the material available on record that Noticee no. 2 exercised complete control over the movement of IPO and Rights Issue Proceeds and approved transfer of funds. A total of ₹62.51 crores (₹18.98 crores from IPO proceeds and ₹43.53 crores from Rights Issue proceeds) was diverted from the proceeds of IPO and Rights Issue to related parties and other entities (including ₹32.73 cores to Noticee no. 2) and Noticee no. 2 granted the approvals for the said transfers. In light of the same, I am of the view that in addition to imposition of appropriate penalty, directions for bringing back the money diverted from VCL's account, disgorgement of unlawful gains made by Noticee no. 2, along with appropriate debarment/ restraint from the securities markets must also be issued.

ORDER

200. I, therefore, in order to protect the interest of investors and the integrity of the securities market, in exercise of the powers conferred upon me under Sections 11(1), 11(4) and 11B(1) read with Section 19 of the SEBI Act, hereby issue the following directions:

  i. VCL shall, forthwith but not later than 3 months from the date of this Order, bring back to its account, the amount of ₹62.51 crores, which has been found to be diverted, along with interest @ 12%, to be computed from the respective date of each of the debit transactions recorded in VCL's Account(s);

  ii. VCL and Mr. Harshawardhan Sabale are debarred from accessing the securities market and are also prohibited from buying, selling and otherwise dealing in the securities market, directly or indirectly, in any manner whatsoever, for a period of **7 years** from the date of this order;

  iii. Mr. Harshawardhan Sabale is further restrained from being associated with any listed company or a SEBI registered intermediary as a director or a key managerial person, directly or indirectly, for a period of 7 **years** from the date of this order;

iv. Mr. Harshawardhan Sabale shall disgorge unlawful gains amounting to ₹1,28,77,11,275 (as calculated in Table no. 24 of this Order) along with simple interest @ 12% per annum from the date of selling of respective shares till the actual date of deposit. The said amount shall be remitted to the Investor Protection and Education Fund ('IPEF'), as referred in Section 11(5) of the SEBI Act within forty-five (45) days from the date of receipt of this Order and payment can be made through the designated payment link provided on the SEBI Homepage (www.sebi.gov.in) under *'Click here to make payment to SEBI IPEF';*

v. Athos Capital Advisors Private Limited and Mr. Jinesh Mehta are debarred from accessing the securities market and are also prohibited from buying, selling and otherwise dealing in the securities market, directly or indirectly, in any manner whatsoever, for a period of **2 years** from the date of this order;

vi. Mr. Jinesh Mehta is further restrained from being associated with any listed company or a SEBI registered intermediary as a director or a key managerial person, directly or indirectly, for a period of **2 years** from the date of this order;

vii. Mr. Raj Jagtani, Proprietor of BM Traders is debarred from accessing the securities market and is also prohibited from buying, selling and otherwise dealing in the securities market, directly or indirectly, in any manner whatsoever, for a period of **4 years** from the date of this order;

viii. Mr. Raj Jagtani, Proprietor of BM Traders, is further restrained from being associated with any listed company or a SEBI registered intermediary as a director or a key managerial person, directly or indirectly, for a period of **4 years** from the date of this order;

ix. Mr. Vinayak Vasant Jadhav, Mr. Mukundan Raghavan and Mr. Fahim Iunus Shaikh are debarred from accessing the securities market and are also prohibited from buying, selling and otherwise dealing in the securities market, directly or indirectly, in any manner whatsoever, for a period of **1 year** from the date of this order;

x. Mr. Vinayak Vasant Jadhav, Mr. Mukundan Raghavan and Mr. Fahim Iunus Shaikh are further restrained from being associated with any listed company or a SEBI registered intermediary as a director or a key managerial person, directly or indirectly, for a period of **1 year** from the date of this order;

xi. First Overseas Capital Limited is debarred from accessing the securities market and is also prohibited from buying, selling and otherwise dealing in the securities market, directly or indirectly, in any manner whatsoever, for a period of **2 years** from the date of this order. During the period of such debarment, First Overseas Capital Limited shall not take up any new mandate in relation to the business of issue management, directly or indirectly, either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management.

201. It is hereby clarified that the direction of debarment issued against First Overseas Capital Limited in the present Order and the direction of debarment issued against the said entity vide my earlier order dated October 23, 2025 (WTM/AS/CFD/CF-SEC-4/31729/2025-26) shall run consecutively, i.e., the period of debarment imposed vide this order shall commence after expiration of the period of debarment imposed vide the order dated October 23, 2025.

202. Further, in exercise of the powers conferred upon me under Sections 11(4A) and 11B(2) read with Sections 15A(a), 15A(b), 15HA and 15HB of the SEBI Act, I hereby impose the following penalties upon the Noticees:

Table No. : 27 – Quantum of Penalty

Name of the Noticee	Penalty Amount (in ₹) u/s 15A(a) of SEBI Act	Penalty Amount (in ₹) u/s 15A(b) of SEBI Act	Penalty Amount (in ₹) u/s 15HA of SEBI Act	Penalty Amount (in ₹) u/s 15HB of SEBI Act	Total Penalty (in ₹)
Varanium Cloud Limited	NA	10,00,000	1,00,00,000	20,00,000	1,30,00,000

Harshawardhan Hanmant Sabale	10,00,000	10,00,000	20,00,00,000	20,00,000	20,40,00,000
Vinayak Vasant Jadhav	NA	NA	5,00,000	1,00,000	6,00,000
Mukundan Raghavan	NA	NA	5,00,000	1,00,000	6,00,000
First Overseas Capital Limited	NA	NA	NA	10,00,000	10,00,000
Athos Capital Advisors Private Limited	NA	NA	50,00,000	NA	50,00,000
Jinesh Narottamdas Mehta	NA	NA	50,00,000	NA	50,00,000
Raj Jagtani (Proprietor of BM Traders)	10,00,000	NA	10,00,00,000	NA	10,10,00,000
Fahim Iunus Shaikh	NA	NA	5,00,000	1,00,000	6,00,000

203. The Noticees mentioned in Table 27 shall pay the penalty within a period of forty-five (45) days from the date of receipt of this order.

204. The Noticees shall pay the monetary penalty by online payment through following path on the SEBI website: www.sebi.gov.in/ENFORCEMENT → Orders → Orders of Chairperson/ Members → Click on PAY NOW. In case of any difficulties in payment of penalties, the Noticee may contact the support at portalhelp@sebi.gov.in.

205. Noticees shall forward details of the online payment made in compliance with the directions contained in this Order to the "*Division Chief, CFID, SEBI, SEBI Bhavan II, Plot no. C-7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai-400 051*" and also to e-mail id:- *tad@sebi.gov.in* in the format as given in table below:

Table No. : 28

Case Name	
Name of the Payee	
Date of Payment	
Amount Paid	
Transaction No.	

Bank Details in which payment is made	
Payment is made for:	

206. The proceedings in respect of Noticees no. 5 and 12, i.e., Ms. Hetal Somani and Mr. Kalpesh Anil Acharekar, are hereby disposed of without issuance of any directions and imposition of any monetary penalty.

207. This Order shall come into force with immediate effect.

208. A copy of this Order shall be served on all the Noticees. A copy of this Order shall be forwarded to the Stock Exchanges, Depositories and Registrar and Share Transfer Agents to ensure necessary compliance.

AMARJEET SINGH Digitally signed by AMARJEET SINGH
Date: 2026.08.25 17:12:53 +05'30'

AMARJEET SINGH

PLACE: MUMBAI **WHOLE TIME MEMBER**

SECURITIES AND EXCHANGE BOARD OF INDIA