

SECURITIES AND EXCHANGE BOARD OF INDIA

INTERIM ORDER

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

IN THE MATTER OF FIVE CORE ELECTRONICS LIMITED

IN RESPECT OF -

SL NO	NOTICEES	PAN
1.	FIVE CORE ELECTRONICS LIMITED	AAACF6709Q
2.	AMARJIT SINGH KALRA	AKWPK0803H
3.	SURINDER KAUR KALRA	AFMPK2461E
4.	JAGJIT KAUR KALRA	ANTPK4395G
5.	AMARJIT SINGH KALRA HUF	AAHHA8772Q
6.	SURINDER SINGH KALRA	AFYPK7984E
7.	SURINDER SINGH KALRA HUF	AAQHS3875P

BACKGROUND -

1. Five Core Electronics Limited ("**FCEL / the company**"), an entity having its registered office at WZ-15B, Ground Floor, Uggarsain Market, Ashok Nagar, New Delhi - 100018, listed its shares on NSE EMERGE - National Stock Exchange of India Limited's ("**NSEIL**") SME Platform on May 21, 2018 by issuing 33,33,000 equity shares of face value of INR 10 each for cash, at price of INR 140 per equity share, raising about INR 46 Crore.
2. Securities and Exchange Board of India ("**SEBI**") has received certain complaints against the company, which are as under:

- (a) Letter dated May 05, 2019 from one Aditya Agarwal, then Independent Director of the company intimating his resignation from the said post on account of 'unethical behaviour and practice of the management'.
- (b) Letter dated August 09, 2019 from the Ministry of Corporate Affairs (“MCA”) forwarding therewith complaint of one Anand Lakhotia (“The Complainant”), Director of Acepro Advisers Pvt. Ltd.
- (c) Letter dated August 20, 2019 from Economic Offences Wing forwarding the complaint of Anand Lakhotia (same as referred at (b) above).

3. The gist of the allegations in these complaints is as under:

- (a) Mis-utilization and mis-appropriation of Initial Public Offer (“IPO”) proceeds amounting to INR 46.66 Crore;
- (b) Resignation by all KMPs and directors of the company;
- (c) No business activity carried out by the company; the registered office of the company is also closed;
- (d) Non-availability of the Managing Director (MD) and other non-executive directors (NEDs) since February 2019 and
- (e) Investigations carried out by Director of Revenue Intelligence (DRI).

4. The list of the promoter / promoter group with their shareholding for the quarter ended September 30, 2018 (which is the last filing made by the company) is as under:

TABLE I - SHAREHOLDING PATTERN [SOURCE: NSE WEBSITE]		
SI No.	Name of the Promoter and Promoter Group	% Shareholding
1.	Amarjit Singh Kalra	30.42
2.	Surinder Kaur Kalra	19.35
3.	Jagjit Kaur Kalra	6.63

4.	Amarjit Singh Kalra HUF	1.3
5.	Surinder Singh Kalra	10.88
6.	Surinder Singh Kalra HUF	1.04
	Total	69.63

5. The list of directors, as per the Annual Report for the year 2017-18, is as follows:

TABLE II - LIST OF DIRECTORS [SOURCE: COMPANY ANNUAL REPORT]		
SI No.	Name of the Director	Category
1	Amarjit Singh Kalra	Managing Director
2	Surinder Kaur Kalra	Director
3	Jagjit Kaur Kalra	Director
4	Raj Kumar Projapati	Independent Director
5	Aditya Agarwal	Independent Director
6	Neeraj Sharma	Independent Director

Response of NSE on complaints:

6. The complaints were forwarded by SEBI to NSE for examination of the aforesaid allegations with respect to provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**”). In response, NSE vide email dated November 18, 2019 *inter alia* submitted that it had conducted an analysis on functioning of the company and undertaken suspension of company based on the same. NSE vide the said email also submitted a report based on its analysis and action. The findings of the same are as under:

- (a) In the Board meeting dated April 27, 2019 of the company, it was noted by the independent directors viz. Mr. Aditya Agarwal and Mr. Neeraj Sharma, that Mr. Amarjit Singh Kalra (MD), Mr. Surinder Kaur Kalra (Director), Mr. Jagjit Kaur Kalra

(Director) and Mr. Raj Kumar Projapati (Independent Director) did not attend the meeting and remained unresponsive to the notice of the meeting/ its reminders. In the said meeting, it was decided to file a complaint to the MCA regarding the unethical behaviour of the management of the company. The said complaint was filed with MCA on April 27, 2019 *inter alia* stating the following:

- The MD and other NEDs are not available in office since the last two months;
- All the KMPs other than the MD have claimed to have tendered their resignation;
- Critical employees have resigned;
- No production/manufacturing activities are carried out and the registered office is closed.

(b) NSE had also sought clarification on the announcements from the company w.r.t. outcome of the said Board meeting; it has not received any response from the company till date.

(c) Mr. Amitabh Singh, Chief Financial Officer (CFO) and Mr. Saurabh Kumar Jain, Company Secretary & Compliance Officer (CS & CO) have claimed that they have resigned w.e.f. March 20, 2019 and March 26, 2019 respectively. Mr. Aditya Agarwal and Mr. Neeraj Sharma, Independent Directors, have also tendered their resignations on May 06, 2019 via email. Based on facts, further clarifications were sought on May 06, 2019, since no announcements were made by the company under Regulation 30 of the LODR Regulations in relation to the resignation of the independent directors.

(d) Considering the above, NSE conducted a site visit of the company at its registered office, its manufacturing site and its R & D Centre on May 06, 2019 to verify the existence and functioning of the company. NSE observed that all these offices were shut and the same was not informed to the exchange.

- (e) Further, NSE also observed non-compliances with the following provisions of the LODR Regulations by the company:
- Regulation 6 (Appointment of Company Secretary as Compliance Officer)
 - Regulation 7 (Appointment of Registrar and Share Transfer Agent)
 - Regulation 13(3) (Investor Grievance Report)
 - Regulation 31 (Shareholding Pattern), and
 - Regulation 33 (Financial Results) for the quarter ended on March 2019
- (f) NSE had also noted that no announcement has been made by the company since April 27, 2019 including intimating a delay in submission of financial results thereafter (as required under the SEBI Circular dated November 19, 2018).
- (g) NSE also issued a show cause notice (“SCN”) to the company on May 30, 2019, asking the company as to why the admission of dealings of the securities of the company should not be prohibited (suspended) as per Chapter IV of the Byelaws of the exchange. The said notice was sent through email addresses available with the exchange and also through courier to the company and to the promoters, whose complete addresses were available with the exchange. The said couriers also remained undelivered.
- (h) Considering all the above facts, NSE has been seeking clarifications from the company in the recent past with respect to the functioning of the company. However, the company has failed to respond to the clarifications sought by the exchange. As the trading in the securities may not reflect the actual status of the company, NSE has suspended the trading in securities of the company with effect from June 25, 2019.

7. NSE's comments were also sought on the allegations regarding mis-utilization and mis-appropriation of IPO proceeds. NSE, in its response dated November 26, 2019, stated that while the company had claimed that there was no deviation of utilization of funds

as on September 30, 2018, the latest figures available were for the half year ended September 2018. As the half yearly statement did not contain detailed notes to the accounts, the exchange was unable to identify any mis-utilization. However, NSE undertook a preliminary study and observed material changes in the company's balance sheet figures, as stated below:

TABLE III - MATERIAL CHANGES IN BALANCE SHEET [SOURCE: NSE]			
(INR in Lakh)			
Liabilities	Sept-18 (Half-yearly)	Mar-18 (FY2017- 18)	Change
Long Term Borrowings	250.97	492.55	241.58
Short Term Borrowing	1988.83	2281.02	292.19
Current Maturities of Long Term Liabilities	Not available	150	Not available
Total			533.77
(INR in Lakh)			
Assets	Sept-18	Mar-18	Change
Long Term loans and Advances	1000.06*	1.7	998.36
Total			998.36

**Break-up not available*

8. NSE comments were also sought with regard to the due diligence conducted by it at the time of the IPO of the company. NSE, in its response dated March 02, 2020, stated as under:
- (a) The company admitted in its Draft Prospectus (“DP”) dated February 28, 2018 for public issue of 33,33,600 equity shares for a cash price of INR 162 per share

- aggregating to INR 54 Crore. The company had appointed Sarthi Capital Advisors Pvt. Ltd. as Merchant Banker & Bigshare Services Pvt. Ltd. as Registrar to the Issue.
- (b) The company had submitted DP along with the document as per the checklist for approval. On receipt of the DP, the xchange verified whether the company met the eligibility criteria. The Exchange reviewed the DP and the documents submitted by the company and raised certain queries on them. The Exchange also conducted the site visit of the company on March 07, 2018 at WZ-15B, Ground Floor, Uggarsain Market, Ashok Nagar, New Delhi - 100018, and was satisfied with the same.
- (c) On receipt of satisfactory reply from the company to the queries raised, the exchange granted in-principle approval to the company for the proposed SME IPO on March 08, 2018.
- (d) On April 16, 2018 the company submitted a withdrawal letter to the exchange citing reason viz. change in the issue size and inclusion of co-lead manager to the issue.
- (e) The company refiled the DP on April 18, 2018 for public issue of 33,33,000 equity shares for a cash price of INR 140 per share aggregating to INR 46.66 Crore. The Company had appointed Sarthi Capital Advisors Pvt. Ltd. and Indian Overseas Bank as Merchant Banker and Bigshare Services Pvt. Ltd. as Registrar to the Issue.
- (f) The Company had submitted DP along with the documents as per the checklist for approval. On receipt of the DP, the exchange verified whether the company met the eligibility criteria. The Exchange reviewed the DP and the documents submitted by the company and raised certain queries on them.
- (g) On receipt of satisfactory reply from the company, the exchange granted in-principle approval to the company for use of name of the exchange in the Offer Document in respect of the proposed SME IPO on April 30, 2018 and the company got listed on May 21, 2018.

Response of the company:

9. Comments were sought by SEBI from the company vide email dated May 16, 2019 and a reminder was also sent vide email dated June 24, 2019. Further, letters each dated December 11, 2019 were hand delivered to the company, its executive directors and promoters at their respective addresses seeking their comments on the complaints within 7 days of receipt of the letters. Since the same returned undelivered, the letters were affixed at the registered office of the company at Delhi. An attempt was also made to affix the same at the manufacturing address of the company at Jaipur. However, no response has been received till date either from the company, its executive directors or its promoters.

Response from Andhra Bank

10. As per the offer document filed by the company, Andhra Bank was the banker to the company. To understand the NPA (Non-Performing Assets) position of the Balance Sheet of the company and in order to procure the trail of funds, the bank was requested to provide bank statements from 01.01.2018 till the date of the last transaction, by email. The bank was also requested to comment on the said account and recoverability of the amount. The bank, vide email dated February 21, 2020 sent its response providing bank statements of the account of the company with the bank. However, since no narration is available for the transactions that appear as various debit and credit entries in the said bank statements, the same merits deeper examination.

Response from Axis Bank

11. As per the offer document filed by the company, Axis Bank was the banker to the public issue. Accordingly, the bank was requested to provide the statement of transactions of the company from January 01, 2018 till the date of the last transaction, by email. Axis Bank vide email dated March 04, 2020 has provided the bank statements for the two

accounts held in the name of the company. One account was opened on March 16, 2018 and closed on May 05, 2018 and another account was opened on May 09, 2018 and closed on July 10, 2019. It is seen that there was no transaction in the account which was closed in May 2018. In the other account, there were two debit transactions worth INR 42 Crore and INR 4.6 Crore to the company and Sarthi Capital Advisors Limited - the Merchant Banker, respectively on May 09, 2018, post which there were no transactions. Since there is no proper evidence of utilization of proceeds; this merits further examination.

Response from the Lead Manager to the Issue

12. As per the offer document filed by the company, Sarthi Capital Advisors Pvt. Ltd. and Indian Overseas Bank were the Lead Managers to the issue of the company. Details with regard to the due diligence conducted by the Lead Managers were sought. Due-diligence certificate along with the process followed by them was provided by Sarthi Capital Advisors Pvt. Ltd.

SEBI's analysis and observations:

13. Upon analysis of the facts of the case on the basis of information available on record, SEBI's preliminary observations are as under:
 - (a) Failure to make announcements on the exchange website in line with Regulation 30 of LODR Regulations
 - I. As stated by NSE in its report, the company has conducted its Board meeting on April 27, 2019. However, no information on the outcome of the said meeting was filed with the exchange.
 - II. It was also highlighted by NSE that the CFO, CS & CO and independent directors - Mr. Neeraj Sharma and Mr. Aditya Agarwal have claimed to

have tendered their resignation. However, no such information was filed with the exchange.

- III. NSE has also noted that no announcements have been made by the company since April 27, 2019. The company has made no announcement intimating delay in submission of financial results thereafter as per SEBI Circular dated November 19, 2018.
- IV. In view of the above, it appears that the company has violated the provisions of Regulation 30 of the LODR Regulations and SEBI Circular dated November 19, 2018.

(b) Non-compliance with other provisions of the LODR Regulations:

- I. From NSE's report as well as disclosures made on the NSE website, the company is non-compliant with the following provisions of the LODR Regulations:
 - Regulation 6 (Appointment of Company Secretary as Compliance Officer)
 - Regulation 7 (Appointment of Registrar and Share Transfer Agent)
 - Regulation 13(3) (Investor Grievance Report)
 - Regulation 31 (Shareholding Pattern), and
 - Regulation 33 (Financial Results) for the quarter ended on March 2019
- II. The aforesaid regulations are covered in SEBI Circular dated May 03, 2018 (SOP Circular on non-compliance with the provisions of LODR Regulations) wherein the stock exchanges are empowered to take action for non-compliance with the provisions of the LODR Regulations. Accordingly, NSE has suspended the trading in the securities of the company as prescribed under the said SOP Circular.

(c) Mis-utilization of funds and Intent to defraud the investors:

- I. The objects of the IPO issue of the company, as noted from the offer document filed by the company, are for:

TABLE IV - OBJECTS OF THE ISSUE [SOURCE: SEBI WEBSITE]	
Object to the issue	Amount (INR in Lakh)
Meeting the working capital requirement of the company and its subsidiary	3319.38
General Corporate Purposes	560
Repayment of unsecured loans of promoters / directors	319.82
Issue expenses	467

- II. Post the listing of securities in May 2018, the company vide its letter dated October 30, 2018 has submitted a statement of 'nil' deviation / variation (as required under Regulation 32 of the LODR Regulations) for half year ended September 30, 2018. No later filing in respect of statement of deviations / financial results has been made by the company; this, coupled with the fact that the promoters and some directors of the company are not traceable, lends credence to the suspicion that there could be a possible siphoning or diversion of funds, which merits deeper examination. Further, from the Table IV above, it is apparent that there was a substantial increase (to the tune of INR 1000 Lakh) in the long term loans and advances by the company. In view of the same and also keeping in mind that (a) the company has not been making filings on NSE; (b) the promoters of the company are not traceable; (c) the operations of the company are suspended and the factory is closed; (d) two independent directors of the company have filed complaints against it; (e) independent directors and critical employees have claimed to

have resigned from the company; and (f) there appears to be an ongoing DRI investigation against the company (as apparent from the letter dated May 05, 2019 of Shri Aditya Agarwal, former director of the company, addressed to the company and the press release dated March 26, 2019 issued by the company, which are available on record), it appears that the company and its promoters have mis-utilized the funds raised through the IPO. Further, the above factors, *prima facie*, also point towards an intent to defraud the investors. There appears to be a pre-meditated plan to lure investors with the intention to defraud them and to mis-utilize the proceeds of IPO.

14. In view of the above, Noticee nos. 1 to 7 (i.e. the company, its promoters/promoter group entities and/or the non-independent directors) have *prima facie* violated the provisions of Regulation 3(d) of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 read with Section 12A(c) of the SEBI Act, 1992.
15. Further, it is alleged that the company (Noticee no. 1) has committed breach of the provisions of Regulations 4(1)(a), (d), (e), (g), (h) & (j), 4(2)(b), (d)(iii) & (e), 6, 7, 10, 13(3), 30, 31(1), 32, 33, 34, 36 & 46(2) of the LODR Regulations.
16. It is further alleged that Noticee nos. 2 to 7 who are promoters/promoter group entities and/or non-independent directors of the company, have committed violation of Regulations 4(2)(f)(i)(2), 4(2)(f)(ii)(2), 4(2)(f)(ii)(8), 4(2)(f)(iii)(12), 4(2)(f)(iii)(13) & 4(2)(f)(iii)(14) of the LODR Regulations.

17. In view of the above, I am convinced that it is a fit case for taking urgent measures for protecting the interest of the investors and the securities market by issuing interim ex-parte directions.

ORDER –

18. In view of the foregoing, in order to protect the interest of investors and the integrity of the securities market, I, in exercise of the powers conferred upon me under Section 19 read with Sections 11, 11(4) and 11B of the SEBI Act, 1992, hereby issue the following directions:
- (a) The Noticee nos. 1 to 7 are restrained from accessing the securities market and are further prohibited from buying, selling or otherwise dealing in securities in any manner whatsoever, either directly or indirectly, till further orders.
 - (b) The Noticee nos. 1 to 7 are restrained from being associated with any intermediary registered with SEBI or any listed entity or its material unlisted subsidiary, till further orders.
 - (c) The Noticee nos. 1 to 7, are restrained from disposing, selling or alienating, in any other manner, their assets or divert funds, till further orders.
 - (d) NSE shall appoint an independent Auditor/ Audit Firm for conducting a detailed forensic audit of the books of accounts of the company to confirm mis-utilization of IPO proceeds by the company. Such appointment of forensic auditor shall be done within 30 days of this order.
 - (e) The Noticee nos. 1 to 7 shall extend necessary co-operation to the independent Auditor/Audit Firms appointed as per this Order and shall furnish all information/documents sought from them from time to time.
 - (f) The independent Auditor/ Audit Firm so appointed as per this Order shall submit a Report to SEBI through NSE within 3 months of date of its appointment.

19. The Notices may file their replies to this Order within 21 days and in case they want an opportunity of personal hearing, they may indicate the same in their replies.
20. This order shall come into force with immediate effect and shall be in force till further directions.
21. This Order is without prejudice to the right of SEBI to take any other action that may be initiated against the persons/entities covered under this Order, in accordance with law.
22. A copy of this Order shall be served on the concerned Stock Exchanges, Depositories and RTAs for their information and compliance.

Place: Mumbai

Date: July 23, 2020

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