

SECURITIES AND EXCHANGE BOARD OF INDIA

INTERIM EX PARTE ORDER

UNDER SECTIONS 11(1), 11(4) AND 11B OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 AND REGULATION 11 OF THE SEBI (PROHIBITION OF FRAUDULENT AND UNFAIR TRADE PRACTICES) REGULATIONS, 2003 AND THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

IN THE MATTER OF DEWAN HOUSING FINANCE CORPORATION LIMITED

	NOTICEES	PAN
	PROMOTERS	
1.	KAPIL WADHAWAN	AAOPW6145L
2.	DHEERAJ WADHAWAN	AAOPW4517G
3.	RAKESH KUMAR WADHAWAN	AAEPW7656G
4.	SARANG WADHAWAN	AAAPW2530R
5.	ARUNA WADHAWAN	AAHPW9334L
6.	MALTI WADHAWAN	AAGPW8042G
7.	ANU S WADHAWAN	AAQPW2792P
8.	POOJA D WADHAWAN	AAJPB9268Q
9.	WADHAWAN HOLDING PVT LTD	AAACW5001G
10.	WADHAWAN CONSOLIDATED HOLDING PVT LTD	AACCD2944F
11.	WADHAWAN RETAIL VENTURE PVT LTD	AAACW6632R
12.	WADHAWAN GLOBAL CAPITAL LTD (<i>formerly known as Wadhawan Housing Pvt Ltd</i>)	AAACW9811G

BACKGROUND-

1. Dewan Housing Finance Limited (“DHFL”), incorporated on April 11, 1984, has been carrying on the business of providing loans to retail customers for construction or purchase of residential property, loans against property, etc. The company is registered with National Housing Bank (NHB) under Section 29A of the National Housing Bank Act, 1987 bearing registration number 01.0014.01.

2. The equity shares of the Company are listed on BSE Limited and National Stock Exchange of India Limited. It is observed that the Company had also issued Non-Convertible Debentures (NCDs) through public issue as well as private placements, which are listed on the stock exchange(s). As on May 31, 2019, DHFL had more than Rs. 24000 crores worth of outstanding NCDs issued through public issue.
3. On January 29, 2019, Cobrapost, a media portal, published an article “Anatomy of India’s Biggest Financial Scam Pulled off by Dewan Housing”¹. It was alleged in the article that the promoters of the Company-Mr Kapil Wadhawan and Mr Dheeraj Wadhawan, had siphoned off more than Rs. 31,000 crores of public money primarily through grants and advances to shell companies.
4. On the same day i.e. January 29, 2019, DHFL issued a press release² raising concerns about the motivation of Cobrapost and stated that the allegations are baseless. Brief highlights of the press release were as follows:
 - (a) All loans were disbursed in the normal course of business in accordance with the industry best practices and in compliance of all regulatory norms.
 - (b) DHFL and its group companies are confident of meeting any scrutiny on any aspects of operations and will pursue these frivolous allegations to its logical conclusion.
 - (c) Despite liquidity concerns, DHFL as a responsible corporate, has met all its obligations to lenders and paid back in excess of Rs. 17,000 crores in the last three months.
 - (d) It has a strong corporate governance regime and has received AAA ratings from leading credit agencies. It is fully tax compliant and its books are audited by global auditors.

¹ <https://cobrapost.com/blog/press-realise-dhfl-l/1374>

² DHFL’s announcement on BSE and NSE on January 29, 2019

5. On November 20, 2019, Reserve Bank of India (“RBI”) vide its Order No. DOR NBFC(PD) 986/03.10.136/2019-20 issued under Section 45IE(1) of the Reserve Bank of India Act, 1934 (“RBI Act”) superseded the Board of Directors of DHFL and appointed Shri. R Subramaniakumar as the Administrator. Thereafter, on November 29, 2019, RBI filed an application to initiate corporate insolvency resolution process (“**CIRP**”) in respect of DHFL under Section 227 of the Insolvency and Bankruptcy Code, 2016 (“IBC”). On December 03, 2019, Hon’ble National Company Law Tribunal (“**NCLT**”), Mumbai Bench, passed an order admitting the application filed by RBI and confirming the appointment of Shri R Subramaniakumar as the administrator of the company to perform all the functions of a Resolution Professional(“RP”) in the CIRP of DHFL.
6. In terms of Section 25(2)(j) of the IBC, RP’s are required to file an application before NCLT for avoidance of transactions of the following nature:
 - (a) Preferential transactions under section 43;
 - (b) Undervalued transactions under section 45;
 - (c) Transactions defrauding creditors under section 49;
 - (d) Extortionate credit transactions under section 50; and
 - (e) Fraudulent transactions and wrongful trading under section 66 of the Code.
7. Vide disclosure made to Stock Exchanges on January 06, 2020 by DHFL, it was stated that in order to ascertain if DHFL had entered into the aforementioned transactions as mentioned in **Para 6**, Grant Thornton India LLP (“**Transaction Auditor**”) was appointed to assist the RP in conducting a transaction audit of the Company. The Transaction Auditor was also required to identify and review irregular borrower accounts

from the angle of possible fraud and specifically review the underlying documents and security made available and its enforceability.

8. Vide disclosure made to Stock Exchanges on September 02, 2020, it was informed that the Administrator had received an initial report (“Initial Report”) from the Transaction Auditor indicating that certain transactions entered into by DHFL during the period FY 2006-07 to FY 2018-19 are fraudulent in nature, as per Section 66 of the IBC. Based on the same, the Administrator filed an application in respect of disbursements made to certain entities, referred to as the Bandra Books Entities, before the Mumbai Bench of Hon’ble NCLT under Section 60(5) and Section 66 of the Code on August 30, 2020 (**“Application”**). These entities/persons included Kapil Wadhawan, Dheeraj Wadhawan, Township Developers India Ltd, Wadhawan Holdings Private Limited, Dheeraj Township Developers Private Limited, Wadhawan Consolidated Holdings Pvt. Ltd., Wadhawan Global Hotels & Resorts Pvt. Ltd and Wadhawan Lifestyle Retail Pvt. Ltd.
9. The financial impact of the “fraudulent transactions” covered in the Application was disclosed by the Company in the aforementioned corporate announcement as under, -
 - (a) Rs. 14,046 Crores, being the amount outstanding in the books of the Company as on June 30, 2019;
 - (b) Rs, 3,348 Crores being amount considered as due and outstanding towards notional loss to the Company on account of fraudulently charging lower rate of interest to certain entities referred to in the Application as the Bandra Book Entities.
10. During the period from FY 2006-07 to 2018-19, for which the Administrator has alleged fraudulent transactions, following entities acted as promoters of the Company³:

³ Based on the quarterly shareholding patterns submitted by the Company to the Exchanges

Table "A"		
S. No.	Name	Period during which the Entity was promoter
1	Mr Kapil Wadhawan	April 2006- March 2019
2	Mr Dheeraj Wadhawan (Brother of Mr. Kapil Wadhawan)	April 2006- March 2019
3	Mr Rakesh Kumar Wadhawan (Uncle of Mr. Kapil Wadhawan)	April 2006-December 2009
4	Mr Sarang Wadhawan (Son of Mr Rakesh Kumar Wadhawan)	April 2006- December 2009
5	Ms Aruna Wadhawan (Mother of Mr. Kapil Wadhawan)	April 2006- March 2019
6	Ms Damyanti Rani Wadhawan (Deceased)	April 2006-September 2010
7	Ms Malti Wadhawan (Wife of Mr. Rakesh Kumar Wadhawan)	April 2006- December 2009
8	Anu S Wadhawan (Wife of Sarang Wadhawan)	April 2006- December 2009
9	Pooja D Wadhawan	April 2006- December 2013
10	Wadhawan Holding Pvt Ltd	April 2006- December 2013
11	Wadhawan Consolidated Holding Pvt Ltd	June 2010- December 2013
12	Wadhawan Retail Venture Pvt Ltd	June 2010-December 2013
13	Wadhawan Global Capital Ltd (<i>formerly known as Wadhawan Housing Pvt Ltd</i>)	March 2013- March 2019

Rakesh Kumar Wadhawan acted as Chairman of the Company from FY 2007-08 to 2008-09 whereas Kapil Wadhawan acted as Chairman and Managing Director during FY 2009-10 to 2018-19 and as Vice Chairman and Managing Director during FY 2007-08 to 2008-09.

CONSIDERATION

- Based on the Initial Report and the Corporate Announcement dated September 02, 2020, it has been observed that DHFL has entered into certain fraudulent transactions, which were shown as bonafide transactions in its published financial statements as well as corporate

announcements disseminated in the public domain. I note that the corporate announcement has been made on the basis of the Initial Report of the Transaction Auditor and the full extent of the fraudulent transactions in the Company is yet to be unraveled.

12. I note from Initial Report that the Company had created a 'logical partition' in the Enterprise Resource Planning (ERP) Software used for bookkeeping and loan management purposes. This 'logical partition' stored data pertaining to only one branch – Bandra, which was a virtual branch. The report notes that this appears to be a parallel set of books of accounts maintained by the Company and all the loan accounts present in this module appear to be non-genuine. These accounts have been collectively called as 'Bandra Books' in the Initial Report. It is also stated in the report that approvals and fund disbursement in respect of "Bandra Book" accounts were provided by the Chairman and Managing Director of the DHFL- Kapil Wadhawan.
13. I note that the report states that out of the Rs. 23,815 crores shown as disbursed to Bandra Book entities in the accounts of the Company, only Rs. 11,755.79 crores was actually disbursed. This amount (Rs. 11,755.79 crores), the report notes, was disbursed to 91 entities, but was shown in the books of the company as comprising of 2,60,315 home loan accounts. The closing balance outstanding in the books of the company towards such accounts as of June 30, 2019 was Rs. 14,046 crores.
14. The transaction auditor verified the financial statements of 50 of the said 91 entities, which accounted for 70% of the disbursements, and noted that 34 entities had invested a portion of the loan amount received from the lender in companies which were linked to the promoters of DHFL. The report also identified that such entities had weak financial strength and their repayment capacity was doubtful. These loans were unsecured and given without taking any collateral. The report concludes that the Company suffered a notional loss of Rs. 3,348 crores

as the interest charged on such loans was lower than the interest charged for other similar entities by the Company in the normal course of business.

15. I also observe that the report notes that if the interest income generated from the Bandra Book accounts were taken out from the total interest income reported by the Company, then for the period FY 2008 to FY 2019, DHFL would have made a loss in all years except FY 2018.
16. I therefore note that the Initial Report raises serious concerns over authenticity and reliability of DHFL's financial statements for the period FY 2007 to FY 2019. This calls into question the "*true and fair*" nature of the financial statements of the Company.
17. I note that the company had raised a significant amount of Rs. 24,000 crores through public issue of debt securities during this period. The financial statements of a company are relied upon by debt investors for assessing the financial health and repayment capacity of the Company and hence their investment decisions would have been sullied by these fraudulent misstatements. The interests of investors who bought equity shares of the Company during this period have also been prejudiced because the financial statements of the company did not state the true and fair picture of the affairs of the Company.
18. I draw attention to Regulation 12A(a), (b) and (c) of the Securities and Exchange Board of India Act, 1992 as well as Regulation 3(b), (c) and (d) and Regulation 4(1) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003 ("**SEBI PFUTP Regulations, 2003**") which provide as under,-

12A. No person shall directly or indirectly—

(a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of this Act or the rules or the regulations made thereunder;

(b) *employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;*

(c) *No person shall directly or indirectly engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder.*

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets.”

19. By indulging in such fraudulent transactions, which were shown as bonafide transactions in the published financial statements and by issuing corporate announcements in the public domain, the promoters of the Company have, *prima-facie*, defrauded the investors in securities of DHFL.

20. I also draw attention to Regulation 4(2)(f) of SEBI PFUTP Regulations, 2003 which states that *“Dealing in securities shall be deemed to be a manipulative, fraudulent or an unfair trade practice if it involves knowingly publishing or causing to publish or reporting or causing to report by a person dealing in securities any information relating to securities, including financial results, financial statements, mergers and acquisitions, regulatory approvals, which is not true or which he does not believe to be true prior to or in the course of dealing in securities.”* Attention is also drawn to Regulation 4(2)(k) of SEBI PFUTP Regulations, 2003 which states that *“Dealing in securities shall be deemed to be a manipulative, fraudulent or an unfair trade practice if it involves disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading and which is designed or likely to influence the decision of investors dealing in securities.* Also, knowingly planting false or misleading news which may induce sale or purchase of securities is categorized as a manipulative, fraudulent or an unfair trade practice under Regulation 4(2)(r) of SEBI PFUTP Regulations, 2003.

21. It also appears that the key management people of DHFL have not complied with Regulation 4(1) and other disclosure related provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 (***“SEBI LODR Regulations, 2015”***) which required the Company to refrain from misrepresentations and ensure that the information provided to recognised stock exchange(s) and investors is not misleading. Kapil Wadhawan and Rakesh Wadhawan, being the Chairman and Managing Director of the Company for the past several years, were responsible for ensuring the integrity of DHFL’s accounting and financial reporting systems and based on the findings of the Initial Report, it appears that they were, *prima facie*, involved in the aforesaid manipulation/ falsification in books of accounts and, thereby, misrepresented to the investors and other stakeholders the financial information pertaining to the Company.
22. The investors in debt securities issued by the Company and investors who dealt with the Company’s equity shares during this period were induced into these transactions based on the untrue information disseminated by the Company. The interest of investors who take the decision of investing in the securities of the Company on the basis of financial position of the Company and disclosures made in the financial statements have been, *prima facie*, affected adversely due to the aforesaid transactions entered into by the Company and the consequent fraudulent misstatements in the financial statements of the Company. Thus, promoters of DHFL have *prima facie* violated the following provisions of law:
- (a) Section 12A(a), (b) and (c) of the Securities and Exchange Board of India Act, 1992
 - (b) Regulation 3(b), (c), (d), (d), Regulation 4(1) and Regulation 4(2)(f), (k) and (r) of the SEBI PFUTP Regulations, 2003
 - (c) Additionally, Rakesh Kumar Wadhawan and Kapil Wadhawan have *prima-facie* violated Regulation 4(1) and other related provisions of the SEBI LODR Regulations, 2015.

ORDER

23. Given that the above violations are very grave in nature and the amount involved in the fraudulent transactions is of a very high magnitude, I consider it necessary to restrain the Noticees immediately in a manner as to minimize the damage caused to the interests of the investors and to protect market integrity.
24. Accordingly, I, in exercise of the powers conferred upon me in terms of Section 19 read with Sections 11(1), 11(4) and 11B of the SEBI Act read with Regulation 11 of PFUTP Regulations, 2003, hereby issue the following directions with immediate effect and these directions shall remain in force till further directions. –
- (a) The promoters of DHFL during the period from April 01, 2006 to March 31, 2019 namely (i) Mr. Kapil Wadhawan, (ii) Mr. Dheeraj Wadhawan, (iii) Mr. Rakesh Kumar Wadhawan, (iv) Mr. Sarang Wadhawan, (v) Ms Aruna Wadhawan, (vi) Ms Malti Wadhawan, (vii) Ms Anu S Wadhawan, (viii) Ms Pooja D Wadhawan, (ix) Wadhawan Holding Pvt Ltd, (x) Wadhawan Consolidated Holding Pvt Ltd, (xi) Wadhawan Retail Venture Pvt Ltd and (xii) Wadhawan Global Capital Ltd (*formerly known as Wadhawan Housing Pvt Ltd*) 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.
- (b) The aforementioned persons are also restrained from associating themselves with any listed public company and any public company as directors/ promoters which intends to raise money from the public or any intermediary registered with SEBI.
25. The abovementioned persons are directed to show cause as to why suitable directions/prohibitions under Sections 11(4) and 11B of the SEBI Act including the directions restraining/prohibiting them from accessing the securities market and buying, selling or

otherwise dealing in securities in any manner whatsoever, directly or indirectly, for a specified period and restraining them from associating with any listed company and any registered intermediary, should not be imposed against them.

26. The abovementioned persons may, within 21 days from the date of receipt of this *Interim Order-cum-Show Cause Notice*, file their respective replies with SEBI. If the aforementioned entity/persons intend to avail of an opportunity of personal hearing, they may indicate the same in their replies.
27. In the event of Noticees failing to file reply or requesting for an opportunity of personal hearing within the said 21 days, the preliminary findings of this Order and ad-interim directions at **Para 24** above shall stand confirmed against them automatically, without any further orders.
28. This Order is based on the Disclosure filed by the Administrator on the stock exchanges. 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, based on further findings.
29. This Order is without prejudice to Direction(s) or Order that may be passed by Hon'ble NCLT during the corporate insolvency resolution process of the Company under the Insolvency and Bankruptcy Code, 2016.
30. A copy of this Order shall be forwarded to the Noticees, the Resolution Professional, recognized Stock Exchanges and the Depositories for their information and necessary action.

Place: Mumbai
Date: September 22, 2020

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