IN THE SECURITIES APPELLATE TRIBUNAL
AT MUMBAI

DATED THIS THE 05TH DAY OF NOVEMBER, 2026

CORAM: Justice P.S. Dinesh Kumar, Presiding Officer
Ms. Meera Swarup, Technical Member
Dr. Dheeraj Bhatnagar, Technical Member

Appeal No.229 of 2023
[Along with Misc. Application No.282 of 2025]

Coffee Day Enterprises Ltd.
23/2, Coffee Day Square,
Vittal Mallya Road,
Bangalore, Karnataka-560001. …Appellant

(By Mr. Janak Dwarkadas, Senior Advocate with Mr. Zerick Dastur, Ms. Archana Uppuluri, Mr. Khushil Shah and Ms. Palak Agrawal, Advocates i/b. Zerick Dastur Advocates for the Appellant.)

Securities and Exchange Board of India
SEBI Bhavan, Plot No.C-4A,
G-Block, Bandra Kurla Complex,
Mumbai – 400 051. …Respondent

(By Mr. Pradeep Sancheti, Senior Advocate with Mr. Manish Chhangani, Mr. Sumit Yadav, Mr. Abhay Chauhan and Mr. Atul Agrawal, Advocates i/b. The Law Point for the Respondent.)

THIS APPEAL IS FILED UNDER SECTION 15T OF THE SEBI ACT TO SET ASIDE THE ORDER DATED JANUARY 24, 2023 PASSED BY THE SEBI.

THIS APPEAL HAVING BEEN HEARD AND RESERVED FOR ORDERS ON APRIL 29, 2026 COMING ON FOR PRONOUNCEMENT OF ORDER THIS DAY, THE TRIBUNAL MADE THE FOLLOWING:

ORDER

Per: Justice P. S. Dinesh Kumar, Presiding Officer

This appeal is directed against order dated 24.01.2023, passed by the WTM[1], SEBI[2] issuing several directions. The main directions are to take steps for recovery of dues from Mysore Amalgamated Coffee Estates Limited ('MACEL' for short) and to pay a penalty of ₹26 Crores for violation of Securities laws.

2. Heard Mr. Janak Dwarkadas, learned Senior Advocate for the appellant and Mr. Pradeep Sacheti, learned Senior Advocate for the SEBI.

3. Brief facts of the case are, Coffee Day Enterprises Limited ('CDEL/Company for short) is a listed company. It has 49 subsidiaries. Through its subsidiaries and associates, the Company was doing business in multiple sections such as coffee retail and exports, leasing of commercial office space, financial

[1] Whole time member
[2] Securities Exchange Board of India

services, etc. The Chairman of the Group, V. G. Siddhartha reportedly committed suicide in July, 2019. In his suicide note dated 27.07.2019 written to the Board of Directors and Coffee Day family, he had written that he was in deep debt. After his demise, Mr. Ashok Kumar Malhotra, a retired DIG[3] of CBI[4] and Agastya Legal LLP, a law firm were engaged to investigate the books of accounts of the Company and its subsidiaries. SEBI also initiated investigation on its own to ascertain whether any funds were diverted to related entities.

4. The report submitted by Mr. Malhotra and SEBI's investigation revealed diversion of ₹3,535 Crore from seven subsidiaries to MACEL, a related entity of Company's promoters. The dues outstanding payable by MACEL to the said subsidiaries is as follows:

		Outstanding Dues from MACEL	
Sl. o.	***Name of the subsidiary***	***As on March 31, 2019***	***As on July 31, 2019***
1.	*Coffee Day Global Ltd.*	*65*	*1,112*
2.	*Tanglin Retail Reality Developments Pvt. Ltd.*	*789*	*1,050*
3.	*Tanglin Developments Ltd.*	*-12*	*620*
4.	*Giri Vidhyuth(India) Ltd.*	*-*	*370*
5.	*Coffee Day Hotels and Resorts Pvt. Ltd.*	*-*	*155*
6.	*Coffee Day Trading Ltd.*	*-*	*125*
7.	*Coffee Day Econ Pvt. Ltd.*	*-*	*103*
Total		***842***	***3,535***

[3] Deputy Inspector General.
[4] Central Bureau of Investigation

5. The purpose of transferring and the persons responsible for the decision to transfer the funds was explained to the SEBI by CDEL in its email[5] as follows:

(a) MACEL owned coffee estates. It was supplying coffee beans to the Coffee Day Global. MACEL had long standing business relation with Coffee Day Global. The funds were transferred to MACEL from subsidiary companies by Siddhartha and the purpose of transfer was not recorded;

(b) All amounts advanced to MACEL was by the subsidiaries through normal banking channel;

(c) Siddhartha alone took decisions to transfer the amounts from subsidiaries to MACEL; and

(d) MACEL had confirmed the outstanding dues to the subsidiaries and the subsidiaries had sought for an action plan to repay the dues.

6. MACEL had written[6] to SEBI stating that as on 31.07.2020, ₹3,499 Crore was payable to the subsidiaries. With regard to the flow of funds from subsidiaries, its utilisation and bank account details, MACEL wrote[7] to SEBI as follows:

> *"Mysore Amalgamated Coffee Estates Limited (MACEL) has around 600 acres of Coffee Plantations in Chikkamagalur/Hassan Dist. Late. V. G. Siddhartha (VGS) and his family owns around 10,000 acres of coffee estates through*

[5] dated 24.08.2020
[6] Email dated 28.09.2020
[7] Email dated 15.12.2020

various entities belonging to VGS & Family. All these estates are managed and operated by MACEL. All expenses and income of these entities are monitored by MACEL. Hence there have been regular financial transactions between MACEL and these entities. There were lot of transactions on daily basis between MACEL and these entities. Further, we would like to bring to your kind attention that VGS used to transfer amount from MACEL to various entities himself or by using the cheques pre-signed by Authorised Signatories. VGS used to ask the Authorised Signatories to sign bunch of cheques which were kept in his possession and used them as and when required.

All these transactions are carried out / approved by VGS. Due to large transactions between MACEL and other entities on day to day basis, we have provided the authorized signatories to the respective bank accounts instead of authorized signatories for the transfer of amount.

MACEL has engaged external experts to ascertain the details of deployment of the aforesaid funds. We are in constant touch with the subsidiaries of Coffee Day Enterprises Limited and are actively working towards the plan for repayment of dues of MACEL."

7. SEBI, *vide* email dated 20.10.2020, sought additional information from CDEL with respect to transfer of funds from CDEL & its subsidiaries to MACEL for the period from 31.03.2019 to 31.07.2019, the sources of funds of the subsidiaries, the bank accounts through which the money was transferred and relevant supporting documentary evidences like minutes of Board meeting, documentary evidence for authorized signatories, shareholder's approval, etc.

8. CDEL submitted its reply[8] to the SEBI stating that Malhotra report demonstrated the manner in which Siddhartha used to single-handedly monitor and oversee every financial transaction including transfers to MACEL, sometimes as sole signatory to the cheques.

9. According to MACEL, ₹384.17 Crore was transferred to Siddhartha and related parties. However, the bank statements and information provided by MACEL's statutory auditor revealed that a sum of ₹3,088 Crore was transferred to Siddhartha, ₹145 Crore to his wife[9]. Three other entities, Gonibedu Coffee Estates, Sivan & Co. and S.V.Gangaiah Hegde had received ₹315 Crore, ₹126.78 Crore and ₹3.6 Crore respectively, without any approval by the Board of Directors or audit committee.

10. In CDEL's audit report for FY 2018-19, only two subsidiaries namely Coffee Day Global Limited and SICAL Logistics Limited were disclosed as 'material subsidiaries' and other 'material subsidiaries' were not disclosed.

11. SEBI issued an SCN[10] calling upon the appellant Company to show cause why appropriate directions[11] (including directions for taking steps to recover ₹3,494 Crore from MACEL) should not

[8] Vide email dated 21.11.2020
[9] Malavika Hegde
[10] dated 07.12.2021
[11] under Section 11(4), 11(4A) read with Section 11(1) and 11B, 11B(2) of the SEBI Act, 1992 Rule 4 of SEBI (Procedure for holding Inquiry and Imposing Penalties) Rules, 1995

be issued and monetary penalty be not imposed for the alleged violations of Securities laws[12].

12. CDEL replied to the SCN. After adjudication, SEBI has passed the impugned order.

13. Mr. Janak Dwarakdas, learned Senior Advocate for the appellant Company submitted that:

i. The impugned order contains various directions recorded in paragraph No.73. The directions 73(a) to (e) have already been complied with. The erstwhile Managing Director, V.G. Siddhartha had taken sole and exclusive responsibility for transactions violating PFUTP Regulations[13] for which a penalty of ₹26 Crores has been levied. The entire SCN proceeds on an incorrect premise that approvals of the Board of Directors or audit committee or shareholders were not taken by the CDEL in respect of transactions between CDEL's subsidiaries and MACEL and thus, CDEL had violated LODR Regulations[14].

ii. The transactions referred in the impugned order pertain to the period of 2018-19 and April to July 2019. The law governing related party transactions during the said period

[12] Section 12A(a), (b) & (c) of the SEBI Act, 1992 and Regulations 3(b), (c) & (d) & 4(1) of SEBI (PFUTP) Regulations, 2003 and Regulations 4, 5, 23(2), 23(4) of SEBI (LODR) Regulations, 2015
[13] SEBI (Prohibition of fraudulent and Unfair Trade Practices Relating to Securities Market), 2003
[14] SEBI (Listing Obligations and Disclosure Requirements), 2015

did not cover the transactions involving subsidiaries of listed companies. The LODR Regulations were amended on 09.11.2021 and the amendment came into effect on 01.04.2022. Therefore, the amended provisions have no application in this case. The WTM has noted this aspect in para 52 of the impugned order and let off the Company.

iii. The WTM has recorded a finding that for the period between April and July 2019, the role of Siddhartha as the MD and Chairman cannot be separated from the Company and they ought to be treated as one and same for accountability and liability for imposition of penalty. This finding is erroneous because SEBI's investigation report has explicitly held that the transactions between the subsidiary companies of the CDEL and MACEL were not to the knowledge of any person other than Siddhartha.

iv. SEBI's investigation report also records that the Board of Directors of CDEL had no knowledge and were not aware of the transfer of funds effected between April and July 2019 and they could not have noticed the same before the discovery of Siddhartha's suicide note. The impugned order also ignores Siddhartha's declaration in his suicide note, wherein Siddhartha has taken sole responsibility for all transactions. SEBI's finding that Siddhartha and CDEL are one and the same in fixing the liability amounts to

penalising the shareholders of CDEL for the wrongful personal acts of Siddhartha.

v. The transactions up to 31.03.2019 between CDEL's subsidiaries and MACEL were in the normal course of business and they have been disclosed in the financial statements of the subsidiaries as also in the consolidated statements of CDEL.

vi. The transfer of ₹65 Crore between Coffee Day Global and MACEL was also in the normal course of business.

vii. TRRDPL[15] issued NCDs[16] to Standard Chartered Bank and raised ₹3,000 Crore. This money was used to repay loans against Mindtree shares. The sum of ₹789 Crores advanced to MACEL was towards repayment of loans against Mindtree shares held by Siddhartha and not the sale proceeds from the sale of CDEL's shareholding in Mindtree and CDEL has not committed any fraud. However, the WTM has recorded an incorrect finding in para 62 of the impugned order.

viii. Penalising CDEL would amount to penalising the shareholders for the acts of Siddhartha.

---

[15] Tanglin Retail Reality Developments Private Limited
[16] Non- Convertible Debentures

ix. The WTM has incorrectly held in the impugned order that the fall of CDEL's share price was due to the transactions between the CDEL's subsidiaries and MACEL. But the actual reason for the fall in the share price was due to the news of sudden death of Siddhartha. CDEL came to know about the transactions one year after Siddhartha's death through Malhotra report.

x. The composition of the Board of Directors of CDEL has changed after Siddhartha's death. His wife, Malavika Hegde was appointed as the CEO[17] and the Whole Time Director of CDEL by the shareholders at the AGM[18] held on 18.09.2025 and the present Board of CDEL was also appointed by the shareholders in the same AGM. The shareholders have faith in the present management as they are in the process of reviving the Company. The debt has been reduced from ₹7,214 Crore in March 2019 to ₹672 Crore as on the date of filing the appeal in February 2023.

xi. The allegation of not declaring CDTL[19] as a 'material subsidiary' in the Annual Report of 2019-20 has nothing to do with the allegation of transfer of funds and can be treated as venial violation.

---

[17] Chief Executive Officer
[18] Annual General Meeting
[19] Coffee Day Trading Limited

xii. The penalty imposed by the impugned order is not sustainable as held in *Nithish Bangera v. SEBI*[20].

14. In reply, Mr. Sancheti, learned Senior Advocate for the SEBI submitted that between 01.04.2018 and 31.07.2019, ₹3,535 were transferred from 7 CDEL's subsidiaries to MACEL and these transfers were done without the approval of the Board, audit committee or CDEL's shareholders. MACEL, an entity controlled by Siddhartha's family used to divert funds received from CDEL's subsidiaries to Siddhartha, his wife and entities owned and controlled by him. The seven subsidiaries are wholly owned by CDEL and therefore, the funds and assets owned by them belong to CDEL's shareholders. He submitted that the diverted funds were not recovered and it has caused loss to CDEL's shareholders.

15. He referred to the financial statements of MACEL for the FY 2019, 2020 and 2021 filed with the Ministry of Corporate Affairs and submitted that MACEL had negative net worth and had huge borrowings from related parties and those funds were utilized for giving long term loans and advances to its related parties. This shows that MACEL was merely acting as pass-through entity between the related set of parties.

16. He further submitted that Malhotra report shows that MACEL's statutory auditors had raised concerns about MACEL's financial statements. The said report had also noted a continuous

[20] 2022 SCC OnLine SAT 67

circular movement of funds to hide the balances outstanding from MACEL to CDEL's subsidiaries around the dates when financial reporting was due.

17. He pointed out that in CDEL's email dated 16.12.2020, it is stated that Siddhartha would ask the authorized signatories to sign a bunch of blank cheques and he would use them as and when required. In its email dated 24.08.2020, CDEL has admitted that no purpose was recorded for the transfer of funds between 01.04.2019 and 31.07.2019.

18. He submitted that TRRDPL[21] and GVIL[22] had no revenue of their own and yet had transferred ₹1,420 Crore to MACEL. Based on the information given by Malavika and CA Lavitha Shetty, it is clear that the entire funds received by MACEL from CDEL's subsidiaries were diverted to Siddhartha and his related entities. The National Financial Reporting Authority[23] has also held the statutory auditors of MACEL and CDEL guilty of professional misconduct and failed to report material mis-statements.

19. He submitted that Siddhartha was acting as the Chairman and Managing Director of CDEL. Hence, his acts cannot be disassociated from the Company for the purpose of accountability and liability; and CDEL has been rightly held liable for diversion of funds from its subsidiaries to MACEL. Therefore,

[21] Tanglin Retail Reality Developments Private Limited
[22] Giri Vidhyuth(India) Limited
[23] NFRA

the fraud was not the personal act of Siddhartha and CDEL is liable. CDEL's attempt to act as a victim of its own officer strikes at the root of the regulatory framework. He submitted that if such defense were to be accepted, it would enable the companies to evade liability attributable to its Directors' misconduct.

20. He submitted that it is evident from CDEL's Red Herring Prospectus that it conducted its businesses through subsidiaries and derive all its value from subsidiaries. The transfer of funds from CDEL's subsidiaries to MACEL was nothing but diversion of funds which was not disclosed to the investors till Siddhartha's death. The news of his death had adversely affected CDEL's share price leading to erosion of investors' wealth. MACEL's conduct is therefore, not *bona fide* as it has not repaid the money.

21. He further submitted that appellant's contention that imposition of penalty would amount to penalising the shareholders of the Company for the acts of Siddhartha is misconceived and cannot be accepted. SEBI not only aims to protect the interest of the investors of the Company, but also maintain market integrity, promote, protect and regulate the same. The regulations are framed keeping in mind the rights and interests of multiple stakeholders and not merely the Company's

shareholders. He relied upon *SEBI v. Terrascope Ventures Limited*[24].

22. He further submitted that the Managing Director is Siddhartha's wife. She and other family members are promoters and managing the CDEL's affairs and it is causing prejudice to the shareholders.

23. With regards to the transfer of ₹789 Crore, he submitted that neither in the Malhotra report nor in the appeal, there are any agreements, Board resolutions or any document to show that MACEL had agreed to step into Siddhartha's shoes as the borrower of his personal loan repayment obligation. The explanation given by the appellants with regard to the said sum is not justifiable. The money belonging to a subsidiary of listed company was paid to a connected entity without Board's approval or shareholders' approval and without recording the purpose; and without any documented repayment obligation. This amounts to violation of Regulation 4(1) of PFUTP Regulations. The transactions between TRRDPL and MACEL are not forthcoming. The Malhotra report also does not identify as to what those transactions were or what commercial purpose they served by routing ₹789 Crore through MACEL.

24. He submitted that no supporting documentary evidence has been produced with regard to MACEL's outstanding of ₹64.82

[24] 2026 SCC OnLine SC 403

Crore from CDGL[25]. Appellant has claimed that CDGL had regular coffee procurement relationship with MACEL without any evidence.

25. He further submitted that 'material subsidiary' has not been correctly classified by CDEL. The threshold for classification under Regulation[26] was 20% of either the consolidated income or net worth prior to 01.04.2019. Placing reliance on the following table, he submitted CDTL ought to have been classified as material subsidiary of CDEL from 01.04.2019.

Financial year	*CDEL*		*CDTL*	
All figures in INR (CR).	*Networth*	*Consolidated Income*	*Networth*	*Consolidated Income*
2017-18	*3015.46*	*3851.11*	*281.06*	*167.40*
2018-19	*3166.14*	*4466.79*	*415.76*	*327.25*

(# Source:Annual Report of CDEL for FY 2018-19 pg.134-135)

26. With respect to CDEL's failure to ensure LODR compliance, he submitted that the Regulation 5 of LODR Regulations required a listed entity to ensure that its Directors, KMPs, promoters or any other person dealing with the company to comply with its responsibilities.

27. Mr. Sancheti concluded his arguments by submitting that CDEL grossly failed to ensure that its Directors, promoters and

[25] Coffee Day Global Limited
[26] Regulation 16(1)(c) of LODR Regulations

KPMs acted diligently and in conformity with LODR Regulations. CDEL has admitted that Siddhartha was single handedly running the Company and collecting blank cheques and executing fund transfers. This admission proves that the Company was being run without any checks and balances, enabling diversion of funds from its subsidiaries. This shows that there was serious failure of corporate governance and oversight amounting to violation of LODR Regulations and therefore, the penalty imposed is fully justified.

28. I have carefully considered rival contentions and perused the records.

29. Undisputed facts of the case are, Coffee Day Enterprises Limited ('CDEL' for short), is a listed company. It has 49 subsidiaries. SEBI's allegation is, funds have been diverted from seven subsidiaries to Mysore Amalgamated Coffee Estates Limited ('MACEL' for short).

30. Siddhartha, Chairman of Coffee Day Group committed suicide in July 2019 leaving behind a suicide note dated 27.07.2019 addressed to the Board of Directors and Coffee Day family. CDEL engaged Mr. Ashok Kumar Malhotra, retired DIG of CBI and Agastya Legal LLP to investigate the books of accounts of CDEL and its subsidiaries. SEBI also conducted a separate investigation to find out if there was any diversion of funds to the related entities. The Malhotra report and SEBI's investigation

disclosed diversion of ₹3,535 Crore from seven subsidiaries of CDEL to MACEL.

31. The allegations in the SCN were divided into following two parts:

> *"Part A- Diversion of funds amounting to ₹3,535 Crore from the subsidiary companies of Coffee Day Enterprises Limited to Mysore Amalgamated Coffee Estates Limited, without approval from the Board, Audit committee or shareholders and in an unauthorized and concealed manner.*
>
> *Part B - Allegation of violation of Related Party Transaction related regulations."*

32. CDEL submitted two separate replies stating *inter alia* that:

- Siddhartha, the founder promoter and Managing Director had left behind a letter stating thus:

  > *"My team, auditors and senior management are totally unaware of all my transactions. The Law should hold me and only me accountable, as I have withheld this information from everybody including my family."*;

- CDEL appointed Mr. Malhotra and Agastya Legal LLP and obtained an investigation report;
- CDEL appointed Mr. S. V. Ranganath, a former IAS officer as independent interim chairman;
- The allegation in the SCN that no approval of Board of Directors was taken prior to related party transaction is not tenable because such approval was required to be taken

only post amendment of LODR Regulations with effect from 01.04.2022;

- The outstanding amount of ₹842 Crore by MACEL to seven CDEL's subsidiaries was disclosed in the financial statements of respective subsidiary and consolidated financials of CDEL. The transactions of ₹65 Crore between CDGL and MACEL was disclosed with approval of audit committee and Board of Directors to the shareholders and to the statutory authorities;
- CDGL had a coffee procurement relationship with MACEL and the transactions were approved by CDGL's audit committee and they were disclosed;
- The transfer of ₹789 Crore from TRRDPL to MACEL pertains to sale of Mindtree's shares to L&T, which was approved by CDEL's Board and stock exchange;
- Disclosure of transactions between 7 subsidiaries of CDEL and MACEL were disclosed to shareholders and authorities;
- The details of transactions between CDEL's seven subsidiaries and MACEL came to light after investigation;
- SEBI's investigation report has held that transactions between 01.04.2019 and 31.07.2019 were not known to CDEL's Board of Directors prior to Malhotra's report. Hence, there was no question of approval by CDEL's Board. However, the transactions have been disclosed in CDEL's annual report for the FY 2019-20 in 'notes to consolidated financial statements';

- Out of seven subsidiaries, only CDGL was a 'material subsidiary' and not six others;
- CDEL had 48 subsidiaries which were into diverse businesses. The CFOs and head of finance were appointed to different subsidiaries. The seven subsidiaries were separate entities and with independent Board of Directors and KMPs;
- The transactions between seven subsidiaries and MACEL were circulated to the shareholders, the RoC, the stock exchange etc.;
- The SCN and the investigation report did not disclose as to how CDEL had violated PFUTP Regulations. SEBI's investigation report discloses that it was only Siddhartha, who was responsible and directing the employees to transfer funds to MACEL; and that the Board of Directors were not aware of transfer of funds prior to disclosure of suicide note;
- The CDEL's share price fell due to Siddhartha's death. The outstanding dues came to light through Malhotra report. Hence, the allegation of violation of PFUTP Regulations is untenable; and
- To recover the funds, CDEL had appointed a former judge of Hon'ble High Court of Karnataka to advise in the matter. After his death, CDEL appointed another former judge of High Court of Karnataka, who recommended to file commercials suits. The CDEL's Board appointed the same former judge to oversee the filing etc. The subsidiaries had

appointed an advocate and initiated the process of filing suits in the commercial court.

33. The WTM has summarised the allegations into following two parts and considered them independently.

> *"(i) Whether the transfer of funds to the tune of Rs.3535 Crore from the subsidiary companies of CDEL to MACEL was done without approval of the Board, Audit Committee or shareholders of CDEL in an unauthorized and concealed manner and without complying with the requirements of Regulations 4, 5, 16, 23(1), 23(2), 23(4) & 24 of the LODR Regulations, 2015, and*
>
> *(ii) Whether the fund transfers from subsidiaries of CDEL to MACEL was in the nature of diversion of funds which amounted to fraudulent, manipulative and unfair trade practice, resulting in violation of provisions of Section 12A(a), (b) & (c) of the SEBI Act, 1992 read with Regulations 3(b), (c) & (d) and 4(1) of the PFUTP Regulations."*

34. The WTM[27] has bifurcated the first issue into three sub-issues as follows:

> *"a) Violation of Regulation 4(1)(a) of the LODR Regulations, 2015 read with Regulation 16 which provide that a listed entity shall make disclosures in accordance with the principle that information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosures.*
>
> *(b) Violation of Regulation 23(1), (2) & (4) of LODR Regulations, 2015 which provide for approval of Audit Committee and shareholders of listed company for related party transactions.*
>
> *(c) Violation of Regulation 5 of LODR Regulations, 2015 which provides that listed entity shall ensure that key managerial personnel, directors, promoters or any person dealing with the*

[27] Whole Time Member

listed entity, complies with responsibilities or obligations, if any, assigned to them under LODR Regulations, 2015."

35. ***Re: Violation noted in para 34(a):*** The WTM has recorded that either of the two parameters *viz*. income or net worth of a subsidiary can be considered to hold it as a 'material subsidiary' and held CDTL as a 'material subsidiary'. To substantiate his reasoning, he has extracted the net worth and consolidated income of both CDEL and CDTL and it reads as follows:

Financial year	*CDEL*		*CDTL*	
All figures in (CR).	*Networth*	*Consolidated Income*	*Networth*	*Consolidated Income*
2017-18	*3015.46*	*3851.11*	*281.06*	*167.40*
2018-19	*3166.14*	*4466.79*	*415.76*	*327.25*

(# Source:Annual Report of CDEL for FY 2018-19 pg.134-135)

36. The 'material subsidiary' as defined in Regulation 16(1)(c) of the LODR Regulations, 2015 means a subsidiary whose income or net worth exceeds 10% of the consolidated income or net worth respectively of the listed entity and its subsidiaries in the immediately preceding accounting year. Mr. Sancheti, learned Senior Advocate for SEBI also argued in support of WTM's finding.

37. In para 7.6 of the SCN, it is alleged that CDTL was not shown as one of the 'material subsidiary' in FY 2019-20. The relevant portion reads thus:

"7.6. xxxxxxxxxxx.

"On the basis of aforesaid procedure, the 6 subsidiaries viz. TDL, CDTL, TRRDL, GVIL, CDHPRL and TRRPDL are identified as material subsidiaries by Shri Ashok Kumar Malhotra. Of the same, CDTL fulfills the criteria prescribed under regulation 16 and 24 of SEBI (LODR) 2015 i.e. income of CDTL for FY 2018-19 is Rs.327.26 crore and for F.Y. 2019-20 is Rs.371.20 crore exceeds 10% of annual consolidated turnover or net worth of CDEL. However, it has not been disclosed as a material subsidiary in the Annual Report of CDEL."

38. CDEL's reply is as follows:

"42. The SCN wrongly alleges that CDTL fulfilled the criteria under Regulation 16 and 24 of the LODR having income of 327.26 crores for the FY 2018-19 and 371.20 crores for the FY 2019-20 which according to SEBI exceeded 10% of the annual consolidated turnover or net worth of CDEL and it is alleged that CDTL was not disclosed as a material subsidiary in the Annual Report of CDEL.

43. In this regard it is submitted that CDTL was not a material subsidiary within the meaning of Regulation 16 of LODR Regulations as it stood in the Financial Year 2018-19 and Financial Year 2019-20. It is pertinent to note that according to the definition of "material subsidiary" as it stood in the year 2018-2019 a material subsidiary was a subsidiary whose income or net worth exceeded 20% of the consolidated income or net worth of the listed entity and its subsidiaries in the immediately preceding accounting year.

44. It was only by an amendment which came into effect from April 01, 2019 that the definition of material subsidiary was changed with effect from April 01, 2019 to mean a subsidiary whose income or net worth exceeded 10% of the consolidated income or net worth. It is submitted that CDTL did not fall within the terms of the applicable definition for the period 2018-19 and 2019-20.

45. With regard to the submission that CDTL was not a material subsidiary during the Financial Year 2018-2019 it is submitted

that during the Financial Year 2017-18, the income of CDTL was Rs. 167 crores whereas the consolidated income of the Noticee was Rs. 3851 crores i.e. 4% of the consolidated income. Hence it can be seen that the income of CDTL did not exceed 20% of the consolidated income of the Noticee and its subsidiaries in the immediately preceding accounting year. Without Prejudice to the above, in any case, the income of CDTL did not even exceed 10% of the consolidated income of the Noticee and its subsidiaries in the immediately preceding accounting year.

46. With regard to the submission that CDTL was not a material subsidiary during the Financial Year 2019-2020, it is submitted that during the Financial Year 2018 - 2019, the income of CDTL is 327 crores, whereas the consolidated income of the Noticee was Rs. 3741 crores in the immediately preceding accounting year i.e. 9% of the consolidated income. Hence the same did not exceed 10% of the annual consolidated turnover of the Noticee as above. Accordingly, it is submitted that there is no violation of Regulation 16 and 24 of the LODR Regulation as alleged in the SCN.

47. Pertinently, the auditors of CDEL have not noted any exception in connection with identification of material subsidiary for the years 2018-19 and 2019-20. Hence the allegations in this regard are misplaced."

39. The above extracted portion of the SCN shows that SEBI has alleged that CDEL[28] has failed to show CDTL[29] as a material subsidiary on the premise that CDTL's income for FY 2018-19 was ₹327.26 Crore. In its reply, CDEL has rightly stated that the allegation based on CDTL's income for FY 2018-19 was incorrect. We may record that Regulation 16(1) (c) mandates that a subsidiary whose income or net worth exceeds 10% of the consolidated income or net worth of a listed entity, it shall be

[28] Coffee Day Enterprises Limited - Appellant
[29] Coffee Day Trading Limited

disclosed as a material subsidiary. The table extracted above shows that CDTL's net worth for FY 2018-19 had exceeded 10% of CDEL's net worth requiring it to disclose CDTL as a material subsidiary for FY 2019-20. The WTM has thus, rightly held that CDEL had failed to comply with Regulation 16(1)(c) and Regulation 4(1)(a) of LODR Regulations as the violation is conspicuous inasmuch as for FY 2018-19, CDEL's net worth was ₹3,166.14 Crore and CDTL's net worth was ₹415.76 Crore, which crossed 10% of CDTL's net worth.

40. ***Re: Violation noted in para 34(b):*** The WTM, for reasons recorded in para 52 of the impugned order, has ***exonerated*** CDEL of violation of Regulation 23(1), (2) and (4) of LODR Regulations, 2015.

41. ***Re: Violation noted in para 34(c):*** With regard to the violation of Regulation 5 of LODR Regulations, it was argued on behalf of the appellant that the finding in para 55 of the impugned order is unsustainable because the WTM has incorrectly held that the acts and omissions of Siddhartha are attributable to the company.

42. Regulation 5 reads thus:

> *"5. The listed entity shall ensure that key managerial personnel, directors, promoters or any other person dealing with the listed entity, complies with responsibilities or obligations, if any, assigned to them under these regulations."*

43. The above Regulation requires a listed entity to ensure that the KMPs, directors, promoters or any other person dealing with a listed entity complies with the responsibilities assigned to them. The allegation alleging violation of Regulation 5 is described thus in the show cause notice:

> *"24. Xxxxxxxxxx*
>
> *The public shareholders' funds amounting to INR 3,535 crore were transferred from 7 subsidiaries of CDEL to MACEL for the benefit of promoter related entities. The same was done without obtaining requisite approvals of the Board of Directors, the Audit Committee of CDEL and the shareholders of CDEL. CDEL has failed to disclose the related party transactions and disclosure of material subsidiary, in aforesaid financial statements. This has resulted in non-disclosure of material information of subsidiaries' financial statements and consequently in CDEL's consolidated financial statements during the period. Thus, the consolidated financial statements of CDEL are alleged not to give true and fair view and thus misleading for shareholders of the listed company during the period. In view of above, the noticee has alleged to have violated regulations 4, 5, 23(2), 23(4) of SEBI (LODR) Regulations, 2015 and Section 12A (a), (b) & (c) of the SEBI Act, 1992 and regulations 3(b), (c) & (d) of SEBI (PFUTP) Regulations, 2003."*

44. It is relevant to note that SEBI's investigation report Exhibit -E holds that Siddhartha was responsible for the decision to transfer funds. The relevant portion of the investigation reads thus:

> **"*Investigation in the matter of Coffee Day***
>
> *Late Shri V. G. Siddhartha (then Chairman and Managing Director of Coffee Day Enterprises Ltd. in July, 2019) went missing on July 29, 2019. On July 31, 2019, his body was found floating in the Netravati River and it was suspected that he had*

committed suicide by Jumping into the river on July 29, 2019. Before the aforesaid incident, Late Shri V. G. Siddhartha had instructed his secretary to circulate a letter dated July 27, 2019 addressed to the Board of Directors and employees of Coffee Day Enterprises Ltd. ('CDEL'). The letter highlighted the liquidity crunch that his business was facing and the pressure on Late V. G. Siddhartha to service loans taken by him which led to his succumbing to the situation. He took responsibility for every financial transaction and claimed that his team, auditors and senior management were totally unaware of the transactions and the law should hold him and only him accountable as he had withheld information from everybody including his family.

Subsequently, in September 2019, the Board of CDEL engaged Shri Ashok Kumar Malhotra, retired DIG of Central Bureau of Investigation and Agastya Legal LLP, to investigate the circumstances leading to the statements in the purported letter dated July 27, 2019 of the former Chairman late V. G. Siddhartha and to scrutinize the books of accounts of CDEL and its subsidiaries. As per news reports, the investigation report was submitted by Shri Ashok Kumar Malhotra to the Board of CDEL in July 2020. Pursuant to the news reports, the matter was taken up for preliminary examination. Based on findings of the preliminary examination, Investigation was conducted in the matter.

II. Pursuant to investigation by CFID, the following is observed:

a) Funds amounting to INR 3,535 crore were diverted from 7 subsidiaries of CDEL to Mysore Amalgamated Coffee Estates Ltd. ('MACEL'), a related party of CDEL as disclosed in the Annual Reports of CDEL for FY 2018-19 and FY 2019-20. It was noted that 91.75% shareholding in MACEL was held by Late S. V. Gangaiah Hegde, the father of Late V. G. Siddhartha. The remaining shareholding was held by 71 other shareholders, each holding miniscule shareholding in MACEL. Based on findings of the Investigation and statement recordings of certain KMPs and employees of certain subsidiaries of CDEL, It was concluded that Late V. G. Siddhartha (then-MD of CDEL) was responsible for transferring funds amounting to INR 3,535 crore (INR 842 crore during FY 2018-19 and INR 2,693 crore between April 1, 2019 and July 29, 2019) from 7 subsidiaries of CDEL to MACEL. The same was done without obtaining requisite approvals of the Board of Directors, the Audit Committee of

CDEL / Its 7 subsidlaries and the shareholders of CDEL, which resulted in violation of regulations 23(2), 23(4) of SEBI (LODR) Regulations, 2015. ***The investigation brought out that Late V. G. Siddhartha was the sole person who was responsible for the decision to transfer funds from the 7 subsidiaries of CDEL to MACEL and the Board of directors of CDEL were not awares of such transfers and could not have noticed the same, since the transfers were made without approval of the Board***."

(Emphasis supplied)

45. SEBI's investigation report as also Malhotra report disclose that Siddhartha was keeping blank signed cheques and transferring the funds. It is an admitted position that this aspect has come to light only through suicide note in July 2019. Admittedly, neither the Board of Directors nor the KMPs are arrayed as noticees. SEBI having accepted that Siddhartha was acting all by himself and transferring funds by using the blank signed cheques cannot be heard to contend that CDEL, as a company is guilty of Regulation 5 of LODR Regulations. Therefore, in the present facts, CDEL cannot be held liable for violation of Regulation 5 of LODR Regulations.

46. *Re: (ii) Whether the fund transfers from subsidiaries of CDEL to MACEL was in the nature of diversion of funds which amounted to fraudulent, manipulative and unfair trade practice, resulting in violation of provisions of Section 12A(a), (b) & (c) of the SEBI Act, 1992 read with Regulations 3(b), (c) & (d) and 4(1) of the PFUTP Regulations.*

47. Admitted position is, ₹3,535 Crore was transferred from seven subsidiaries of CDEL to MACEL. The WTM, based on CDEL's

email[30], has held the amount due and recoverable as on 30.09.2022 as ₹3,424.25 Crore. Directions have been issued to recover this money in para 73 of the impugned order. It was submitted by Mr. Janak Dwarkadas that the directions contained in para 73 (a) to (e) have been complied with and a law firm has been appointed under the oversight of NSE. The commercial suits have been referred to arbitration and the arbitration proceedings are in progress. Therefore, no interference is called for with regard to directions in para 73 (a) to (e).

48. The direction 73(f) is with regard to the tenure of the law firm. It has been directed by the WTM that if the dues still remained to be recovered at the conclusion of three annual general meetings, the shareholders of CDEL shall decide the appropriate way forward. It was submitted by Mr. Dwarkadas that the current Board of CDEL comprises of six Directors including the CEO, Whole Time Director, three Independent Directors and two Non-Independent Directors who have been appointed by the shareholders in the AGM held on 18.09.2025 and the shareholders had thus decided that there was no further requirement to continue the direction in para 73(f). He further submitted that the shareholders have placed faith in the new management because the management has continued the process of revival of CDEL and reduced financial debts from

[30] Para 65 of the impugned order

₹7,214 Crore in March, 2019 to ₹672 Crore as on the date of filing written submissions[31].

49. Admittedly, the law firm is functioning under the oversight of NSE which is a second line regulator in securities market. In the AGM held on 18.09.2025, the shareholders have appointed the current Board by reposing confidence in them. Thus, the direction in para 73(f) has worked for itself and therefore, it is desirable to continue the law firm under the oversight of NSE.

50. Direction 73(g) is imposition of penalty of ₹25 Crore under Section 15HA and ₹1 Crore under 15HB of the SEBI Act. The penalty under Section 15HA is for violation of PFUTP Regulations. The WTM has recorded his reasons in following two paragraphs to hold that CDEL has violated the PFUTP Regulations.

> *"62. I note that CDEL has stated in its RHP that it conducted its business through its subsidiaries. Thus, CDEL derived its value from its subsidiaries and therefore, all subsidiaries are material to the Noticee. Given the same, all the earnings and cash flows of the subsidiaries should have flowed up (up-streamed) to the parent. Instead, the monies flowed down (down-streamed) to related entities, starting from MACEL. For instance, the transfer of Rs. 789 Crore from TRRDPL to MACEL in FY 2018-19, which according to the Company, pertained to sale of shares of Mindtree Ltd. to L&T, should have been up-streamed to CDEL, as the sale of CDEL's shareholding in Mindtree should have benefitted CDEL's shareholders only. Instead, the sale proceeds were diverted to MACEL, The Board of the Noticee and its management appear to have completely failed in their responsibility to secure the interests of shareholders while approving the transfer of the sale proceeds to MACEL. To put it*

[31] 23.04.2026

differently, investors who purchased shares of CDEL to own a part of the Coffee Day Group would have considered themselves to own part of Mindtree Ltd, too through CDEL's indirect ownership in Mindtree Ltd., through TRRDPL, as mentioned in point (k) of the previous paragraph.

63. CDEL in its submissions has contended that all the fund transfers from subsidiary companies to MACEL after April 01, 2019 were single handedly done by VGS and the board of directors of CDEL was not aware of the same. In this regard, I note that VGS was holding the position of Chairman and MD of CDEL and had acted and taken all decisions in respect of the said transfers in his official capacity. Considering the same, the role of the MD and Chairman cannot be separated from that of the Company and they ought to be treated as one and same as far as the issue of accountability and liability is concerned. I thus find that CDEL as a company is accountable for the abovementioned fraudulent transfer of funds from subsidiary companies to MACEL and consequently has violated the provisions of Section 12A(a), (b) & (c) of the SEBI Act, 1992 read with Regulations 3(b), (c) & (d) and 4(1) of the PFUTP Regulations."

51. The penalty is imposed under Section 15HA of the SEBI Act on the premise that CDEL has committed fraudulent act and unfair trade practice. The WTM while dealing with violation of Regulation 5 of LODR Regulations has held[32] that '…..*the Noticee has itself admitted that VGS, the Promoter and CEO, was running the entire show within CDEL and its subsidiaries'*. *It has further admitted that VGS used to collect the signed blank cheques and all the fund transfers were done by him. I find that this amounts to an admission by the Noticee that the listed company was being run like a personal fiefdom with no checks and balances in place…..'.* Thus, it is an admitted position that

[32] In para 55 of the impugned order

Siddhartha was collecting blank cheques to transfer money from seven subsidiaries[33] to MACEL. SEBI, in its reply affidavit, has pleaded thus:

> *"48……..*
>
> *(a) At the foremost, it is submitted that the Appellant has not been held guilty for non-compliance of the related party norms under the LODR Regulations.* ***It is submitted that Regulation 2(zc) which defines a 'related party transaction' and Regulation 23 which prescribe the need for approval of Audit Committee and shareholders of a listed company, prior to their amendment which became applicable prospectively with effect from April 01, 2022 onwards, did not cover transactions involving subsidiaries of a listed company.*** *It is only after the aforementioned amendment that the said provisions include transactions involving subsidiaries of a listed company. It is submitted that the Ld. WTM has opined that the Appellant derived all its value from its subsidiaries and had no inherent value of its own as declared in its RHP, the Appellant ought to have considered its subsidiaries as equivalent to a listed company (itself) on its own for determination of related party transactions and followed the norms applicable in respect of the aforementioned transactions with MACEL wherein the 7 Subsidiaries lent advances to the tune of Rs. 3535 Crores to MACEL (hereinafter referred to as the "Impugned transactions"). However, in view of the provision in effect at the time of the said transactions between the 7 Subsidiaries and MACEL, the Ld. WTM has let off the Appellant in respect of the related party norms purely on technicalities."*
>
> *(Emphasis supplied)*

52. SEBI's main case is that money has flown out of seven subsidiaries to MACEL between April and July, 2019. The WTM

[33] 1. Coffee Day Global Limited (GDGL), 2. Tanglin Retail Reality Developments Private Limited (TRRDPL), 3.Tanglin Developments Limited (TDL), 4.Giri Vidhyuth (India) Limited (GVIL), 5. Coffee Day Hotels and Resorts private Limited (CDHRPL), 6. Coffee Day Trading Limited (CDTL) and 7. Coffee Day Econ Private Limited (CDEPL).

has recorded CDEL's contention that CDEL had 48 subsidiaries. All of them including the seven subsidiaries in question were incorporated separately and had their distinct and independent Board of Directors and Key Managerial persons, who were in-charge of day-to-day functioning of the respective subsidiaries. The relevant portion of CDEL's reply to the SCN reads thus:

> *"49. The subsidiaries of the Noticee were incorporated separately and had their distinct and independent board of directors and the key managerial persons who were in charge of the day-to-day functioning of the respective subsidiary. Similarly, the 7 subsidiaries of the Noticee are distinct legal entities having separate CFO/ Head of Finance, finance professionals and statutory auditors, marketing professionals who were reporting to their respective Board of Directors or officials nominated by the respective Boards."*

53. CDEL has urged a specific ground in the memorandum of appeal[34] that the SCN proceeds on a wrongful premise and the allegation that approvals of the Board of Directors or audit committee or shareholders of the appellant were not taken in connection with the transactions referred to in the SCN and consequently, the provisions of LODR Regulations and PFUTP Regulations were violated. In reply to this contention, SEBI has admitted in its affidavit that the WTM has accepted CDEL's contention that at the time of the impugned transactions Regulation 2(zc) of LODR Regulations did not cover transactions involving subsidiaries of a listed company. Therefore, CDEL was not required to comply with norms of Regulation 23 of LODR Regulations in respect of impugned transactions between the

[34] Para 6.2 of memorandum of appeal

seven subsidiaries and MACEL and has let-off the appellant on that ground. Thus, CDEL's stand that the subsidiaries were not required to take CDEL's prior approval to transfer funds to MACEL has been accepted by the WTM[35] and CDEL has been exonerated.

54. The resultant position is, the impugned transactions required no approval by CDEL. Funds have been transferred from subsidiaries to MACEL using the cheques of authorized signatories of those respective subsidiaries. Out of those seven, four are public limited companies and three are private limited companies. Cheques signed by authorised signatories have been used to transfer the funds. Those transfers, as admitted by the SEBI, did not require any approval by CDEL. In the light of this unambiguous legal position, CDEL cannot be held liable for violation of PFUTP Regulations. Consequently, penalty under Section 15HA of the SEBI Act is unsustainable in law and liable to be set aside.

55. For reasons recorded in para 71 of the impugned order, the WTM has imposed a penalty of ₹1 Crore under Section 15HB of the SEBI Act for violation of LODR Regulations. This penal provision can be invoked against those who failed to comply with the provisions of SEBI Act, Rules and Regulations for which no separate penalty has been provided. As noted hereinabove, the WTM has bifurcated violation of LODR Regulations into three parts i.e.(a), (b) and (c). He has exonerated CDEL of the

[35] Para 52 of the impugned order

violations mentioned in para (b). For reasons recorded hereinabove, CDEL has been exonerated of the violations mentioned in para (c). The remaining violation is violation of Regulation 4(1) (a) read with Regulation 16 of the LODR Regulations and in that CDEL had not disclosed CDTL as its 'material subsidiary' for FY 2019-20. For reasons recorded in para 39 above, the said violation is upheld. Cumulatively for two violations mentioned in para 45(a) and (c) of the impugned order, the WTM has imposed ₹1 Crore penalty under Section 15HB of the SEBI Act. CDEL has been exonerated of the violation mentioned in para 45(c). Therefore, the penalty is proportionately reduced to half i.e.₹50 Lakhs.

56. In the result, the following:

ORDER

i. Appeal is ***allowed in part***.
ii. Penalty imposed under Section 15HA of the SEBI Act is set aside.
iii. Penalty imposed under Section 15HB is modified to ₹50 Lakhs.
iv. The direction in 73(f) holding that the tenure of law firm would lapse after three years is set aside.
v. The other directions contained in para 73(a) to (e) remain undisturbed.

vi. Pending interlocutory application(s), if any, stand disposed of.

vii. No costs.

Justice P.S. Dinesh Kumar
Presiding Officer

[Per: Dr. Dheeraj Bhatnagar, Technical Member]

57. I am benefited by the valuable observations of Hon'ble Presiding Officer in the above segment of the order. In addition, the following observations are noteworthy.

58. It is desirable to have a pen picture of the relevant undisputed common facts involved in appeals filed by CDEL and MACEL to guide us in deciding the twin appeals[36]. The following facts are undisputed:

(i) VGS[37] and his family controlled two companies, (a) a listed entity CDEL[38] with 47.03% public shareholding (Appellant in Appeal No. 229 of 2023) having 49 subsidiaries and (b) an unlisted company MACEL[39] in

[36] Appeal No. 229 of 2023 & Appeal No. 513 of 2023
[37] V. G. Siddhartha
[38] Coffee Day Enterprise Limited
[39] Mysore Amalgamated Coffee Estate Limited

which 91.75% shares were held by VGS's father (Appellant in Appeal No. 513 of 2023). Even now, with only 7.23% holding, control over the listed company CDEL still vests with VGS's family and his wife Malvika Hegde ('Malvika' for short) is the CEO[40] and MD[41] at present.

(ii) An aggregate amount of Rs. 3,535 Crore was admittedly involved in the impugned transactions of fund transfer from CDEL's 7 subsidiaries to MACEL, which eventually got rested with VGS family and related entities (including Rs. 3,088 Crore with VGS, Rs. 145 Crore with his wife Malvika and Rs. 3.6 Crore with his parents).

(iii) While being in full knowledge of the poor financial condition of CDEL, as admitted in his dying declaration, VGS had pledged shares held in CDEL for obtaining loans for the CDEL group, part of which was transferred through MACEL to promoters. After his suicide, as the share price of CDEL started tumbling, the lenders were forced to de-pledge shares, which brought down the promoter's holding from 53.93% to 9% as on December 31, 2022.

[40] Chief Executive Officer
[41] Managing Director

59. The appellant CDEL has challenged directions regarding recovery of outstanding dues by CDEL from MACEL under oversight of NSE as also the Penalty of Rs. 25 Crore imposed under Section 15HA for violation of PFUTP Regulations and penalty of Rs. 1 Crore under Section 15HB in respect of two violations of LODR.

60. In the case of MACEL, (the unlisted company having 91.75% shareholding by VGS's father, Mr S. Gangaiah Hegde), SEBI has levied penalty of Rs 1 Crore under section 15HA for '*aiding and abating'* the fraudulent transfer of funds of CDEL's subsidiaries to VGS and family members.

61. *Prima facie*, this appears to be a classic case of siphoning off the money by the promoters as also of wrongfully avoiding loss by promoters disinvesting their holding through pledging their shares while in possession of unpublished price sensitive information ('UPSI') being the poor financial condition of CDEL.

I note that in this matter, SEBI[42] had issued SCN on December 7, 2021, calling upon CDEL to show cause as to why appropriate directions for violation of PFUTP regulations and SEBI Act may not be issued, however, instead of submitting any reply for a period 8 months or complying with the interim order of SEBI, in July, 2022, CDEL *suo motu* instituted an arbitration proceeding with MACEL and submitted reply to SEBI a month thereafter. It is observed that despite noting that significant

[42] Securities and Exchange Board of India

funds aggregating to Rs. 3,535 Crore were transferred from 7 subsidiaries of the listed entity CDEL, through MACEL, to VGS and family members, no further investigation was carried out by SEBI in respect of ultimate beneficiaries and no directions for disgorgement were considered in respect of siphoned off funds. Instead, SEBI issued directions for appointing a law firm to take effective steps for recovery of the outstanding dues by CDEL from MACEL under the oversight of NSE, which is strange since both the companies are under control of same family and are not two unrelated parties that may require resolution of a civil dispute. Further, in case of failure to make recovery, the consequences were left to the shareholders of CDEL, *inter alia* to take a call whether to change the management in case no progress is noted after three AGMs[43]. Evidently, public shareholders were neither privy to SEBI investigation nor had control over the Board or the power to determine the agenda of Board to change the management. Under the circumstances, interests of the public shareholders cannot be protected by such a toothless direction, which effectively leaves recovery by CDEL subsidiaries at the mercy of common promoters of CDEL and MACEL. This is evident by the fact admitted by the learned WTM that till the passing of impugned order, only Rs. 110 Crores could be recovered out of Rs. 3535 Crores.

62. The above facts of the matter indicate that the blatant act of siphoning off funds of a listed entity CDEL (having 47% public

[43] Annual General Meeting

shareholding) to another entity MACEL under the control of same family and eventually through it to their common promoters, instead of inviting criminal/quasi-criminal consequences was treated akin to a civil dispute between two related companies. This is despite the fact that Malvika Hegde, wife of Late VGS and present MD & CEO of CDEL, in her e-mail reply to SEBI during the SEBI proceedings has confirmed receipt of Rs. 3,088 Crores by VGS, Rs.145 Crores by herself and the balance amount by other family members.

63. I note that in reaching to its findings, SEBI has largely relied upon the report of Malhotra committee, which was appointed by the appellant company CDEL itself in August 2019 and based on whose recommendations, it filed the suit against MACEL, while not responding to the SCN of SEBI. Further, SEBI did not wait for the findings of the expert accounting authority NFRA[44] to whom SEBI had made a reference and shared its investigation report in April 2022 in the matter of MACEL for FY 2018-19[45] and in the matter of CDGL for FY 2018-19[46]. In the matter of MACEL, (while holding CA Lavitha Shetty guilty) NAFRA has held such transfer of funds as siphoning off by CDEL subsidiaries through MACEL to VGS family as 'cheating' under section 420 of IPC[47], and a *predicate offence* under Section 3 of

[44] National Financial Reporting Authority
[45] Against CA Lavitha Shetty in NFRA order – NF-23/14/2022 dated 13.04.2023
[46] Against M/s ASRMP & Co. and others in NFRA order – NF-23/14/2022 dated 13.04.2023
[47] Indian Penal Code, 1860

PMLA[48]. However, no consequential actions were considered by SEBI, and despite having the powers under Section 11B of the SEBI Act, no directions for restitution were considered.

64. SEBI is responsible for protection of the interests of the investors. It is expected to take timely action and ensure appropriate mitigation measures for the public shareholders. It is observed that the investigation carried out in the matter by SEBI started late, was lacklustre, incomplete and largely based on the finding of and confined to, the terms and scope of the CDEL-appointed Malhotra committee, which does not serve the objective of investor protection.

65. The short-comings of SEBI's investigation in the matter are evident by the following:-

(i) (Late) VGS had left a dying declaration on July 27, 2019, *inter alia* stating as under:

> *"I would like to say I gave it my all. I am very sorry to let down all the people that put their trust in me. I fought for a long time but today I gave up as I could not take any more pressure from one of the private equity partners forcing me to buy back shares, a transaction I had partially completed six months ago by borrowing a large sum of money from a friend. Tremendous pressure from other lenders lead to me succumbing to the situation. There was a lot of harassment from the previous DG Income tax in the form of attaching our shares on two separate occasions to block our Mindtree deal and then taking position of our Coffee Day shares, although the revised returns have been filed by us. This was very unfair and has led to a serious liquidity crunch."*

[48] Prevention of Money Laundering Act, 2002

This disclosure was shocking for the investors, which brought down the market price of CDEL steeply. However, no independent investigation was initiated by the SEBI in the matter for more than a year and it waited till July, 23 2020 when it asked CDEL to provide the report of Malhotra Committee. Eventually SEBI did initiate investigation but the same largely adopted the findings of CDEL-appointed Malhotra committee report. I note that the Investigation report of SEBI (April 2021), itself refers that its findings are, '*based on the perusal of the investigation report submitted by Ashok Malhotra and Agastya LLP*.' .

(ii) The scope of Malhotra committee appointed by CDEL is limited to the following:-

a) *"Preliminary analysis of Books of Accounts for the period under review.*

b) *Identifying potential high-risk transactions based on the above.*

c) *Evaluation of inherent risks in the operations of the company.*

d) *Listing of adverse/unusual transaction(s)/ indicator(s).*

e) *Preparing cash and fund flows including sources and destination of funds and their impact on the financials.*

f) *Computing the value at risk from the above.*

g) *Correlating the above findings to the statements made in the letter of the former chairman of CDEL VGS,*

particularly with reference to the transactions mentioned in his letter."

It is evident that the Malhotra committee was not mandated to undertake a comprehensive investigation into fraudulent nature of diversion of funds from CDEL group to its promoters and, unlike SEBI, nor was it vested with the powers of Civil Court. SEBI still confined its findings to the report of the committee, which is an external inquiry. It has been held by the Hon'ble Supreme Court of India in the case of ***Rakesh Mokashi vs. SEBI***[49] as under :-

"4. The decisions to be arrived by the Board or the Appellate Tribunal, as the case may be, must be on the basis of evidence that is brought on record. External Enquiry Reports which do not form part of investigation and enquiry by the Board should not be relied on by the statutory authorities i.e. the Board or the Appellate Tribunal."

(iii) In the SEBI's investigation which spanned over the period between 01.04.2018 and 31.03.2020, respective roles of all stakeholders have not been properly identified. Further, other than some KMPs[50], most key family members/ legal representatives of VGS, including his wife Malvika Hegde have not been examined on oath nor their statements were recorded, even though she herself has admitted receiving an amount of Rs. 145 Crore in her email reply. She was

[49] Civil Appeal No. 11757 of 2025 decided on March 11, 2026.
[50] Mr R. Ram Mohan, Mr. Sadananda Poojary, Mr. Bidarahally Chidambar, Mr. Jitendra S, Mr. K. M. Deekshith, Mr. Jayaraj Hubli and CA Lavitha Shetty

allowed to send email reply to written questions, which were *prima-facie* factual in nature such as financial statements of CDEL, which she did by forwarding information called for from CDEL. Further, the contentions of VGS as per the dying declaration were not verified with corroborative objective evidences and treated as gospel truth. It requires gathering independent findings with higher evidentiary value to rely on the contention that in a listed company with high turnover, only one person (VGS) knew about all transactions and that all authorised signatories had handed him over, signed blank cheques. It may require verification of data of mobile numbers linked with the bank accounts, since transfer of huge amounts may create alarms in banking system. Further, why the fact of handing over bunch of signed cheques by authorised signatories to VGS did not come to the knowledge of Company's Board also needs investigation.

(iv) SEBI in its investigation report , which is largely based on the findings of the Malhotra committee, reached to the conclusion that "*since V. G. Siddhartha has passed away, no action can be taken against him*".[51] Hence, no directions were considered necessary for identifying the bank accounts to which the amount of Rs. 3,088 Crore received in VGS's account from CDEL subsidiaries

[51] See Paragraph 12 (a) of Investigation report. Page 263 of memo of appeal.

has ultimately reached. However, such a finding is not in line with the provisions of section 28-B of the SEBI Act, 1992, which reads as under:

> ***"28-B. Continuance of proceedings.*** *- (1) Where a person dies, his legal representative shall be liable to pay any sum which the deceased would have been liable to pay, if he had not died, in the like manner and to the same extent as the deceased:*
>
> *Provided that, in case of any penalty payable under this Act, a legal representative shall be liable only in case the penalty has been imposed before the death of the deceased person.*
>
> *(b) any proceeding for disgorgement, refund or an action for recovery before the Recovery Officer under this Act, except a proceeding for levy of penalty, which could have been initiated against the deceased if he had survived, may be initiated against the legal representative and all the provisions of this Act shall apply accordingly".*
>
> ***[Emphasis supplied]***

Sub-section (1) provides for recovery of any sum from the legal representative of any person in the same manner and to the same extent as the deceased, if he had not died (except penalty). Further, any proceeding for disgorgement etc. (except penalty) may be initiated against the legal representative, if it could have been initiated against the deceased, if he would have survived.

Thus, despite clear cash flow of funds and as noted by the learned WTM too in his order, that money could not have vanished from personal accounts of V. G. Siddhartha, his family and related entities, no directions for disgorgement were recommended in the investigation report, particularly,

even though Malvika Hegde in her email reply had admitted having received Rs 145 Crore out of it. No inquiries were made to identify the legal representative of (late) VGS for making recovery/ initiating inquiry under section 28-B of the SEBI Act, even though admittedly huge sum of Rs. 3,088 Crore was transferred in his account by MACEL. These persons were not brought within the scope of investigation from the perspective of being ultimate beneficiaries of the fraudulent device of siphoning off of funds of CDEL. The SEBI's investigation is thus incomplete and falls short in its investor protection objective.

66. CDEL on its own, had filed a commercial suit against MACEL, even though it is an unlisted entity under the control of same family, and in which VGS's father held 91.75% stakes. Mr. Sancheti submitted that there was no significant business of MACEL's, its revenue was paltry Rs. 1.71 Crore, and had negative net worth of Rs. (-) 223.6 Crore as on March 31, 2019 and during the short period of FY 2019-20 (which covers the investigation period), its total borrowings from related parties jumped from Nil to Rs. 4,328 Crore, while loans given to related parties increased from Nil to Rs. 4171.52 Crore. Thus, in the absence of substantial business of its own, MACEL served as a conduit entity for transfer of funds from subsidiaries of CDEL to VGS and family members. CDEL has admitted that MACEL is on personal business side of (late) VGS, being engaged in management of Coffee estates of VGS and his family and related entities. It is also undisputed that the funds have been ultimately

received by VGS and family and related entities. Thus, in order to unearth true nature of these transactions, it is necessary to lift the *corporate veil* in case of MACEL. WTM has held it as a pass-through entity but has not reached to logical conclusion in respect of actual beneficiaries of these funds nor accordingly issued directions for disgorgement.

67. Principles of piercing of corporate veil are settled by the Apex Court in *Balwant Rai Saluja* and its relevant portion reads as follows:

> *"66. The doctrine of 'piercing the corporate veil' stands as an exception to the principle that a company is a legal entity separate and distinct from its shareholders with its own legal rights and obligations. It seeks to disregard the separate personality of the company and attribute the acts of the company to those who are allegedly in direct control of its operation. The starting point of this doctrine was discussed in the celebrated case of Salomon v. A Salomon & Co Ltd., [1897] AC 22. Lord Halsbury LC (paragraphs 31–33), negating the applicability of this doctrine to the facts of the case, stated that:*
>
> > *"...a company must be treated like any other independent person with its rights and liabilities legally appropriate to itself ..., whatever may have been the ideas or schemes of those who brought it into existence."*
>
> *"67. Most of the cases subsequent to the Salomon case (supra), attributed the doctrine of piercing the veil to the fact that the company was a 'sham' or a 'façade'. However, there was yet to be any clarity on applicability of the said doctrine."*
>
> *"68. In recent times, the law has been crystallized around the six principles formulated by Munby J. in Ben Hashem v. Ali Shayif, [2008] EWHC 2380 (Fam). The six principles, as found at paragraphs 159– 164 of the case are as follows- (i) ownership and control of a company were not enough to justify piercing the corporate veil; (ii) the Court cannot pierce the corporate veil, even in the absence of third party interests in the company, merely because it is thought to be necessary in the interests of justice; (iii) the corporate veil can be pierced only if there is some impropriety; (iv) the impropriety in question must be linked to the use of*

the company structure to avoid or conceal liability; (v) to justify piercing the corporate veil, there must be both control of the company by the wrongdoer(s) and impropriety, that is use or misuse of the company by them as a device or facade to conceal their wrongdoing; and (vi) the company may be a 'façade' even though it was not originally incorporated with any deceptive intent, provided that it is being used for the purpose of deception at the time of the relevant transactions. The Court would, however, pierce the corporate veil only so far as it was necessary in order to provide a remedy for the particular wrong which those controlling the company had done."

"69. The principles laid down by the Ben Hashem case (supra) have been reiterated by UK Supreme Court by Lord Page 56 Neuberger in Prest v. Petrodel Resources Limited and others, [2013] UKSC 34, at paragraph 64. Lord Sumption, in the Prest case (supra), finally observed as follows:

> *"35. I conclude that there is a limited principle of English law which applies when a person is under an existing legal obligation or liability or subject to an existing legal restriction which he deliberately evades or whose enforcement he deliberately frustrates by interposing a company under his control. The Court may then pierce the corporate veil for the purpose, and only for the purpose, of depriving the company or its controller of the advantage that they would otherwise have obtained by the company's separate legal personality. The principle is properly described as a limited one, because in almost every case where the test is satisfied, the facts will in practice disclose a legal relationship between the company and its controller which will make it unnecessary to pierce the corporate veil."*

"70. The position of law regarding this principle in India has been enumerated in various decisions. A Constitution Bench of this Court in Life Insurance Corporation of India v. Escorts Ltd. & Ors., (1986) 1 SCC 264, while discussing the doctrine of corporate veil, held that:

> *Page 57*
>
> *"90. ... Generally and broadly speaking, we may say that the corporate veil may be lifted where a statute itself contemplates lifting the veil, or fraud or improper conduct is intended to be prevented, or a taxing statute or a beneficent statute is sought to be evaded or where associated companies are inextricably connected as to be, in reality, part of one concern. It is neither necessary nor desirable to enumerate the classes of cases where lifting the veil is permissible, since that must necessarily depend on the relevant statutory or other provisions, the object sought*

> *to be achieved, the impugned conduct, the involvement of the element of the public interest, the effect on parties who may be affected etc."*

> *"71. Thus, on relying upon the aforesaid decisions, the doctrine of piercing the veil allows the Court to disregard the separate legal personality of a company and impose liability upon the persons exercising real control over the said company. However, this principle has been and should be applied in a restrictive manner, that is, only in scenarios wherein it is evident that the company was a mere camouflage or sham deliberately created by the persons exercising control over the said company for the purpose of avoiding liability. The intent of piercing the Page 58 veil must be such that would seek to remedy a wrong done by the persons controlling the company. The application would thus depend upon the peculiar facts and circumstances of each case."*

68. I note that in paragraph Nos.66 to 70 of the impugned order, WTM has expressed helplessness in ensuring timely recovery from MACEL considering the conflict of interest between CDEL, which now has only 9.59% promoters' holding and MACEL having 91.75 promoters' holding, while both entities are still under control of same family. He has noted that despite the directions for recovery, only an amount of Rs. 110.75 Crore has been recovered till the date of passing of impugned order. He also noted that the money that was transferred from the seven subsidiaries to MACEL has gone to the personal accounts of VGS, his family and related entities and thus remains in the system and the money cannot be said to have vanished.

69. I also note that VGS had pledged his shareholding and had given personal guarantees for obtaining loans of CDEL's subsidiaries being fully aware of poor financial health of CDEL. Due to invocation of pledge, VGS's family holding in CDEL has

come down from 53.93% (at the end of June 2019) to 9.59% (at the end of December 2022). Thus, it is noteworthy that while having exclusive knowledge about the poor financial condition of CDEL, as admitted in his dying declaration, VGS had pledged his shares in CDEL for obtaining loans for the CDEL group, part of which found way back through MACEL to him and his family. *Prima facie*, this appears to be a case of wrongful avoidance of loss on sale of promoters' shareholding in CDEL likely in the event of such UPSI becoming public. The investigation report does not suggest any investigation into violation of PIT Regulations[52]. In similar facts, SEBI has implicated promoters for pledging shares while being in possession of price sensitive information about the company's poor financial health in other cases.

70. In view of the above, it will be in the interest of justice that SEBI carries out further investigation in the matter which is independent and comprehensive with regard to the scheme of diversion of funds from CDEL group and its promoters. The investigation shall *inter alia*, determine objective of respective roles of various stakeholders and consider appropriate action, particularly with a view to adequately restituting the public shareholders of CDEL. SEBI shall also investigate whether there was any violation of PIT Regulation resulting in avoidance of wrongful loss in the hands of insiders including promoters.

---

[52] SEBI (Prohibition of Insider Trading) Regulations, 2015

71. In issuing these directions, we place reliance on the decisions of Hon'ble Apex Court in the case of *Clariant*[53] and *Sunil Kishan Khaitan*[54] which hold that the SAT[55] as an expert tribunal has same powers as the regulator. This Tribunal has inherent powers under Rule 21 of the Securities Appellate Tribunal (Procedure) Rules, 2000, *to make such orders or give such directions as may be necessary or expedient to give effect to its orders or to prevent abuse of its process or to secure the ends of justice.*

72. Accordingly, order dated January 24, 2023 passed by the WTM[56] and order dated March, 27, 2023 passed by AO[57] are set aside.

73. SEBI is directed to carry out further investigation as early as possible and in any case within the upper limit of 6 months, and pass appropriate orders in accordance with law. While investigating, it may consider *inter alia*,
(i) Recording statements on oath of the concerned persons including legal representatives of (Late) VGS to ascertain the ultimate beneficiaries of siphoned off funds; (ii) Examining on oath various officials of the CDEL and its subsidiaries and banks to verify how huge transactions to the tune of Rs. 3,535 Crores did not generate alert by the bank nor noted by officials whose

[53] Clariant v. SEBI (2004) 8 SCC 524
[54] Civil Appeal No.8249 of 2013 decided on 11.07.2022
[55] Securities Appellate Tribunal
[56] Whole Time Member
[57] Adjudicating Officer

mobile numbers were linked with the bank accounts and to verify the explanation of handing over blank signed cheques to VGS by concerned officials and why the same did not come in the knowledge of Compliance officer, Board or audit committee; (iii) Examination of bank accounts of all the concerned entities including the conduit entities and the beneficiaries of amounts transferred from the bank accounts of Late VGS and his wife and his parents, if any; (iv) Consider application of Section 28-B of SEBI Act[58] to the present case; (v) Whether there is any violation of PIT Regulations; (vi) To consider possibility of appropriately restituting the shareholders, including issuing the directions for disgorgement against the ultimate beneficiaries.

However, in reaching to its findings, SEBI shall not be influenced by our observations made hereinabove.

74. Appeal is disposed of with the above directions.

Dr. Dheeraj Bhatnagar
Technical Member

I agree.

Ms. Meera Swarup
Technical Member

[58] Securities and Exchange Board of India Act, 1992

75. In view of differing opinions of the Hon'ble Members, based on the majority view, the following:-

ORDER OF THE TRIBUNAL

i. Appeal is disposed of in terms of directions contained in Paragraph Nos. 70 and 73 above and the order dated January 24, 2023 passed by the WTM is set aside accordingly.

ii. Pending interlocutory application(s), if any, stand disposed of.

iii. No costs.

Justice P. S. Dinesh Kumar
Presiding Officer

Ms. Meera Swarup
Technical Member

Dr. Dheeraj Bhatnagar
Technical Member

05.11.2026
RHN/PTM

RAJALAKSHMI H NAIR Digitally signed by RAJALAKSHMI H NAIR Date: 2026.11.05 14:42:07 +05'30'