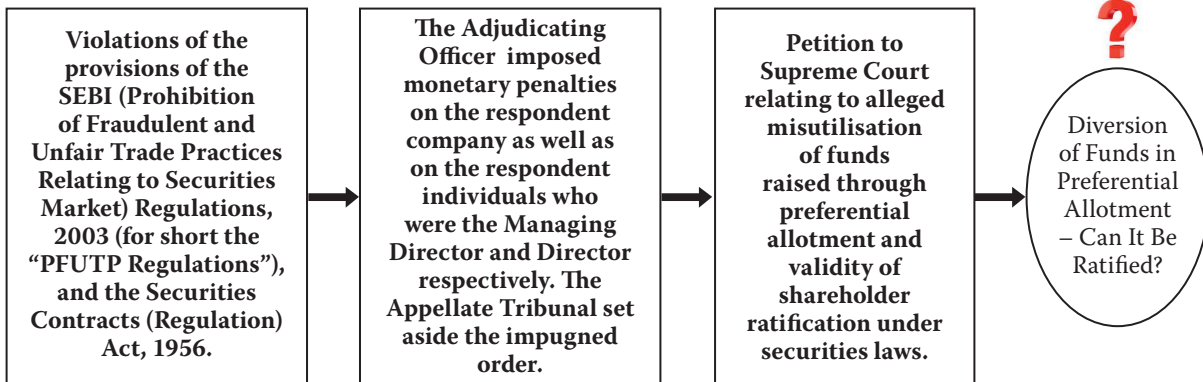


## CASE STUDY



## Background:



## Facts

1. The Petitioner Company, **Zenith Infra Ventures Limited** ("Company"), is a listed entity which raised funds through **preferential allotment of equity shares** after passing a special resolution in an Extraordinary General Meeting (EGM). The company is engaged in infrastructure advisory services.
2. The explanatory statement to the EGM disclosed that the funds would be utilised for-Capital expenditure and expansion, Acquisition of business opportunities, Long-term working capital requirements, Setting up overseas offices and General corporate purposes. The shareholders approved the proposal through a **special resolution**.
3. Pursuant to the said resolution, ZIVL raised approximately ₹20 crore through preferential allotment in 2018.
4. However, it was later observed that immediately upon receipt of funds, a substantial portion was invested in shares of other companies (both listed and unlisted) and the remaining funds were given

as unsecured loans and advances to various entities. Many of these entities were financially linked and allegedly connected to a common promoter group. No formal loan agreements existed in several cases.

5. Further, the company did **not utilise funds for the stated objectives and there was no evidence of capital expenditure, expansion, or business activity**. The company had minimal operational activity during the relevant period.
6. **The Adjudicating officer** initiated proceedings the Company and its Directors alleging misutilisation of funds, misleading disclosures and violation of unfair trade practice regulations.
7. A Show Cause Notice was issued alleging that the funds were diverted almost immediately after receipt and the Company never intended to utilise funds for stated objects.
8. The Whole Time Member of SEBI exercised powers under Section 19 read with sections 11(1), 11(4)(b), and 11B of the SEBI Act to pass **ad interim restraint orders**. These orders prohibited the company's promoters, directors (including the individual respondents in the case), preferential allottees, and certain group companies of the first respondent from buying, selling, or otherwise dealing in securities, either directly or indirectly, until further directions were issued.
9. The Adjudicating Authority, after considering submissions, held that the Company had **failed to utilise funds as per disclosed objects**, the disclosures made in the EGM notice were **misleading and** the conduct amounted to **fraudulent and unfair trade practices**.
10. Penalties were imposed on the Company, Managing Director and Director responsible for financial oversight.

### Defence arguments on behalf of company

**Temporary diversion of funds:** The company argued that due to **adverse market conditions**, funds could not be used as planned, Investments and loans were **incidental to business objectives and** the Memorandum of Association permitted such activities. It was further submitted that the funds were not misused but temporarily deployed and certain investments had yielded returns.

**Amendment of Objects Clause:** In 2020, the company amended its Memorandum of Association to include financing and investment activities.

**Shareholder Ratification:** In 2021, the company passed a **special resolution** stating that shareholders approve and ratify the **variation in utilisation of funds**. All past acts relating to fund deployment stand validated.

### Arguments by the Regulator Authorities

1. The appellant-SEBI contends that from 17.10.2018 itself, instead of using the proceeds for approved objects, funds were diverted to purchase shares of other companies and grant loans/advances. SEBI contends that this is an indication that from the very inception, there was no intention on the part of the respondent-company to use the proceeds of the preferential issue for the purpose for which it was made.
2. On appeal, the Appellate Tribunal held that since shareholders had ratified the utilisation, the acts of the company stood validated and therefore, no violation subsisted.

### Core Legal Issues

1. Whether the utilisation of funds raised through preferential allotment for purposes other than those disclosed in the EGM notice constitutes **misutilisation and violation of securities laws**?
2. Whether **post-facto shareholder ratification and** amendment of the Memorandum of Association can validate diversion of funds, misleading disclosures and Regulatory violations?

**Now decide the above legal issues in light of the facts and submissions made.**

### Disclaimer

The case study has been framed based on publicly available legal principles with necessary modifications and fictionalisation of names to enable professionals to apply their analytical skills. Any resemblance to actual cases is purely coincidental.

**Winner of Case Study – March 2026**

**CS Bhargavi N. R. ACS - 64594**