

**BEFORE THE NATIONAL COMPANY LAW TRIBUNAL
HYDERABAD BENCH AT HYDERABAD**

CA No. 04/621A/HDB/2016 ✓

Date of Order: 26.10.2016 ✓

In the matter of:

1. Deccan Chronicle Holdings Limited
36, Sarojini Devi Road,
Secunderabad – 500003, Telangana ✓

2. Mr. Tikkavarapu Venkatram Reddy, ✓
Chairman
Plot No. 54, H.No-8-2-703/A-6/C
Road No.12, Banjara Hills
Hyderabad- 500034, Telangana

3. Mr. Tikkavarapu Vinayak Ravi Reddy, ✓
Vice chairman and Managing Director
Plot No. 53, H.No-8-2-703/A-6/C
Road No.12, Banjara Hills
Hyderabad- 500034, Telangana

4. Mr. Karthik Iyer Parasuram, ✓
Vice Chairman
H.No-8-2-283/B/5, Plot No.2
Road No. 3, Banjara Hills
Hyderabad – 500034, Telangana

.... Applicants

Counsel for the Applicants

..... Mr. Siva. K. Gopinatham ✓

Dhir & Dhir Associates

Advocate ✓

CORAM:

HON'BLE Mr. RAVIKUMAR DURAISAMY, MEMBER (TECH)

HON'BLE Mr. RAJESWARA RAO VITTANALA, MEMBER (JUDL)

ORDER

(As per Ravikumar Duraisamy, Member (Tech))

1. The present application is filed by the Applicants under Section 621A of the Companies Act, 1956 for compounding the offences under Section 297 of the Companies Act, 1956 before the NCLT, Hyderabad Bench, praying the Tribunal to take lenient view in compounding the offences committed under the Companies Act, 1956.
2. The brief facts of the case as averred in the Application are as follows:
 - a. The Applicant Company is a Company which was incorporated on 16th December, 2002 in the name and style of Deccan Chronicle Holdings Limited under the provisions of the Companies Act, 1956 and registered as a Limited Company

with the Registrar of Companies, Hyderabad (RoC) having CIN L22122AP2002PLC040110.

- b. The present Authorised Share Capital of the Company is Rs. 70,00,00,000/- (Rupees Seventy Crore only) divided into 35,00,00,000 Crore (Thirty Five Crore) Equity Shares of Rs. 2/- each out of which Rs.41,79,44,438/- (Forty One Crores Seventy Nine Lakhs Forty Four Thousand Four Hundred Thirty Eight only) divided into 20,89,72,219 (Twenty Crores Eighty Nine Lakhs Seventy Two Thousand Two Hundred and Nineteen) Equity Shares of Rs.2/- each have been issued and have been fully subscribed and paid up.
- c. The main objects of the Applicant Company are to carry on business of printers and publishers of newspapers, magazines, periodicals, journals, books and pamphlets and other library works in different languages and to carry on all or any of the business of printers, publishers, stationers, lithographers, typefounders, sterotypers, electrotypes, off-set printing, photographic printers, photolithographers, chrome-lithographers, engravers, diesinkers, book binders, card printers, Calendar printers, translators, paper and ink and or other stationery goods, book sellers, advertising agents, Engineers, and dealers in or manufacturers of or importers and exporters of any other article, goods, finished or unfinished or



other things of a character or kind similar or analogous to the forgoing of any of their connected directly or indirectly with them, etc.

- d. As per Section 297 (1) of the Companies Act, 1956, a Company having a Paid-up Share Capital of Rs. 1,00,00,000/- (Rupees One Crore) or more is required to obtain prior approval from the Central Government for entering into contract/to carry out any transactions with the Director of the Company or his relatives(s) or a firm in which such Director or his relative is a partner or any other partner in such a firm or a private Company of which the Director is a member or Director.
- e. The Applicants submitted that the Applicant Company had purchased a Bentley Car from Mr. T. Vinayak Ravi Reddy for an amount of Rs.1,96,43,138/- keeping in view that the purchase of car is not amounting to sale, purchase or supply of any goods, materials or providing services and outside the purview of Section 297 of the Companies Act, 1956. The Applicants further submit that since their Company is having a paid-up capital in excess of Rs. One Crore and it was required to obtain the previous approval of Central Government in this regard in terms of Section 297 of the Companies Act, 1956.
- f. The Applicants further submit that since the Applicant Company did not obtain the necessary prior approval of the

Central Government for carrying out the above-mentioned transaction with Mr. T. Vinayak Ravi Reddy, it was alleged that a contravention of the provisions of Section 297 of the Act in respect of such transaction and hence they are applying suo-motu under Section 621A of the Companies Act, 1956 for the composition of default committed under Section 297 of the Companies Act, 1956. ✓

- g. Subsequently, a Show Cause Notice RAP/209A/DROC(SRD)/CK/ DCHL/Sec297/ 2014/ 1148/13 dated 05.08. 2014 (hereinafter referred as SCN) was issued by the Deputy Registrar of Companies, Hyderabad for the states of Andhra Pradesh and Telangana. Accordingly, the Applicants stated that they have filed the present application suo-motu for compounding of offence under Section 621A of the Companies act, 1956. ✓
- h. It is also submitted that the defaults committed by the Applicants inadvertently and without any malafide intentions on the part of the Applicants and it is not likely to cause any prejudice to either the Applicant Company, or to its members or creditors. It is further submitted by the Applicants that they will take due care in future to ensure that there is no default in compliance with the provisions of the Companies Act, 1956 regarding the matter in question. ✓

3. We have heard the Learned Counsel for the Applicants and also perused the RoC report and other connected case records available in the file.

4. The RoC, while affirming the contentions made in the petition, has stated that “the Applicants have not clearly mentioned in their Petition as to how the offences were made good and that while the Tribunal is considering the compounding application, the Applicants may be put to strict proof of the same.” The RoC has mentioned that the Applicant Company was ordered for inspection under Section 209A of the Companies Act, 1956 by the Ministry of Corporate Affairs, vide Ministry’s letter No.F.No.7/345/2012-C:/II dated 13.09.2012. Further, RoC explained that, while inspecting the books and records of the company, the Inspecting Officers observed that the Applicant Company had entered into transaction with one of its Director Mr. T. Vinayak Ravi Reddy for purchase of Bentley car with companies funds which requires Board of Directors approval and prior Central Government approval as the paid-up capital is more than Rs. 1 Crore as required under Section 297(1) of the Companies Act, 1956. When the matter was taken to DCHL vide letter dated 17.05.2013, the reply was not satisfactory and therefore, the Inspecting Officer opined that the Applicant Company and its Directors contravened the provisions of Section

297(1) of the Companies Act, 1956 and rendered themselves liable for penal action under Section 629A of the Companies Act, 1956.

5. In the show-cause notice dated 05.08.2014, it was stated that when the matter regarding various violations/issues was taken up with the Company vide letter dated 17.05.2013, the Applicant Company wilfully did not reply to the above issue in their reply dated 04.06.2013. Although there was a reply by the Applicant Company on 04.07.2013, it did not seem satisfactory to RoC. The Applicant Company had purchased the Bentley car from Shri Vinayak Ravi Reddy (Vice-Chairman of the Company), out of the funds of the company, without taking approval of the Board of Directors as required u/s 297 of the Companies Act, 1956. It was also further stated that, the transactions of sale of Bentley Car (Regd No. AP 10 AQ 8888) to one Shri Srinivas on 29.08.2012 for Rs. 40,000/- within the span of three years and considering the fact that the said car stands registered in the name of Shri T. Vinayak Ravi Reddy (Vice Chairman of DCHL) as on date, is a colourable transaction and not a prudent commercial decision/practice prevailing in the DCHL besides material act of mismanagement. ✓

6. Though the Applicants have stated that the present Application is

filed suo-motu under Section 621A of the Companies Act, 1956 but it is noted that they have come before this Tribunal only after a show cause notice dated 05.08.2014 was issued by RoC.

7. The present transaction entered into between the Applicant Company and its Director, Mr. T. Vinayak Ravi Reddy for the purchase of Bentley car is clearly a transaction within the meaning of Related Party transaction under the Provisions of the Companies Act, 1956 as affirmed in the SCN by RoC. However, the contention of the Applicants that the above transaction does not amount to sale, purchase or supply of any goods, materials or providing services and outside the purview of Section 297 of the Companies Act, 1956 is not acceptable in the absence of any documents, evidence or necessary proof for the same. On one hand the Applicants deny that the particular transaction is a related party transaction and on other hand they state that the default was committed inadvertently which are two contradictory statements. ✓

8. We are of the view that prior approval sought to be obtained from the Board of Directors and from the Central Government is inter alia with an object to safeguard the interest of various stakeholders viz shareholders, creditors, suppliers, etc. Transparency in operations

is one of the key elements in Listed Company and appropriate disclosure of Related Party Transactions are very essential to various shareholders and as such, the same is the duty of the Company/Board of Directors to give true and fair picture of the functioning of the Company to its shareholders especially any decisions having adverse financial impact on the Company which in turn will have an impact on the shareholders directly or indirectly. As generally known, related party transaction is also gaining importance/prominence since couple of decades. Related Party transaction may create potential conflict of interest which can result in benefit of the party other than the Company or shareholder and thus which needs to be regulated. ✓

9. With regards to the averments made in the Application that no prejudice has been caused to the shareholders is not acceptable in view of the above discussion in pre-paras as the Applicant Company is a listed company having 37,991 shareholders

10. In the present Application, the Applicants have not obtained prior approval from the Board of Directors and also from the Central Government for the aforesaid related party transaction which is mandatorily required as per the law.

In the light of aforesaid facts and circumstances of the case and in

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the interest of justice, the prayer as sought by the applicants is premature and we are not inclined to consider the same at this stage. Therefore, the applicants are directed to obtain the Board of Directors approval and also to approach the Central Government for approval of the related party transaction entered with one of its Directors, Sh. T. Vinayak Ravi Reddy for purchase of Bentley Car in accordance with section 297 of the Companies Act, 1956 and they are at liberty to approach this Tribunal subsequently in accordance with law. ✓

Sd/-

**RAVIKUMAR DURAISAMY
MEMBER (TECHNICAL)**

Sd/-

**RAJESWARA RAO VITTANALA
MEMBER (JUDICIAL)**

V. Annapoorna
V. ANNA POORNA
Asst. DIRECTOR
NCLT, HYDERABAD - 68

