

**IN THE NATIONAL COMPANY LAW TRIBUNAL**  
**DIVISION BENCH COURT – 1, AHMEDABAD**

ITEM No.305- IA/828 of 2020  
in  
CP(IB) 17 of 2019

**Order under Sec.43,44,45,50 & 60(5)(c) IBC r.w 66 &67 of IBC, 2016**

**IN THE MATTER OF:**

Bhavi Shreyansh Shah Liquidator  
of Greendiamz Biotech Ltd

.....Applicant

V/s

Champat Singhvi & Ors

.....Respondent

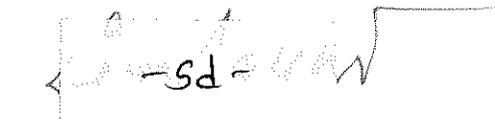
**Order delivered on 05/01/2026**

**Coram:**

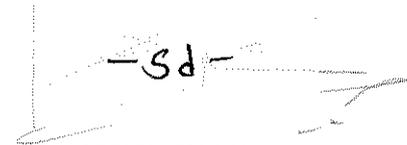
Mr. Shammi Khan, Hon'ble Member (J)  
Mr. Sanjeev Sharma, Hon'ble Member (T)

**ORDER**  
**(Hybrid Mode)**

The case is fixed for the pronouncement of the order. The order is pronounced in open Court, vide separate sheet



**SANJEEV SHARMA**  
**MEMBER (TECHNICAL)**



**SHAMMI KHAN**  
**MEMBER (JUDICIAL)**

**BEFORE THE ADJUDICATING AUTHORITY  
NATIONAL COMPANY LAW TRIBUNAL,  
DIVISION BENCH, COURT - I, AHMEDABAD**

**I.A. No. 828/NCLT(AHM)/2020  
In  
CP(IB) No.17/7(AHM)2019**

*[Application under Section 43, 44, 45, 50 60(5)(c) r/w Section  
66 and 67 of the IB Code, 2016]*

**In the matter of: Greendiamz Biotech Limited**

**Bhavi Shreyans Shah**

Liquidator of Greendiamz Biotech Ltd.  
9 B, Vardan Complex, Nr. Lakhudi Circle,  
Navrangpura, Ahmedabad, Gujarat – 380014.

**.... Applicant/ Liquidator**

**VERSUS**

- 1. Champat Sanghvi**  
Suspended Management  
A/ 602, Chandanbala Appt.,  
Opp. Suvidha Shopping Center,  
Paldi, Ahmedabad-380007
- 2. Deepak Sanghvi**  
Suspended Management  
A/ 602, Chandanbala Appt.,  
Opp. Suvidha Shopping Center,  
Paldi, Ahmedabad-380007
- 3. Mrs. Tarjini Deepak Sanghvi**  
A/ 602, Chandanbala Appt.,  
Opp. Suvidha Shopping Center,  
Paldi, Ahmedabad- 380007

4. **Mrs. Indu Sahngvi**  
A/ 602, Chandanbala Appt.,  
Opp. Suvidha Shopping Center,  
Paldi, Ahmedabad- 380007
5. **Sanjay Hasmukhbhai**  
Barot Vas, Sertha,  
Gandhinagar-382423
6. **Greendiamz Exim Pvt. Ltd.**  
A/ 602, Chandanbala Appt.,  
Opp. Suvidha Shopping Center,  
Paldi, Ahmedabad- 380007

...Respondents

**Order pronounced on 05.01.2026**

**C O R A M:**

**SH. SHAMMI KHAN, HON'BLE MEMBER (JUDICIAL)**  
**SH. SANJEEV SHARMA, HON'BLE MEMBER (TECHNICAL)**

**A P P E A R A N C E:**

For the Applicant/Liq. : Mr. Arjun Sheth, Adv.  
For the Respondent No.1,2,4 : None for R-1, 2 & 4  
For the Respondent No.3,5,6 : R-3, 5 & 6 **Ex- Parte**

**O R D E R**  
**(PER: BENCH)**

1. This application is filed by the applicant on 16.11.2020 vide Inward Diary No. 9532 under Section 43, 44, 45, 50, section 60(5)(c) r/w Section 66 and Section 67 of the Insolvency and Bankruptcy Code, 2016 seeking the following prayers: -

- a. *To allow the present application;*
- b. *Pass appropriate order directing the Respondents 1 to 6, jointly and or severally, to pay sum to the tune of Rs. 14,33,06,893/- to the account of the Corporate Debtor, Greendiamz Biotech Ltd., for distribution as per law;*
- c. *Pass appropriate orders or directions against the Respondents in terms of section 43, 44, 45, 50, 66, 67, 71, 72 and 73 of the Code; and or*
- d. *To pass such other and further orders as this Hon'ble Authority may deem fit and proper in the facts and circumstances of the case.*

2. The Applicant/Liquidator has placed the facts through the I.A. and documents in the following manner: -

- 2.1 The present application is filed under Sections 43, 44, 45, 50, Section 60(5)(c) read with Section 66 and Section 67 of the Insolvency and Bankruptcy Code, 2016. It seeks necessary directions and orders against the Respondents. The Corporate Debtor has entered into preferential transactions. The Corporate Debtor has entered into undervalued transactions. The Corporate Debtor has conducted fraudulent and wrongful trading. The application aims to make the Respondents liable for these transactions. The Applicant seeks to avoid these transactions and recover amounts for the benefit of creditors.

- 2.2 It is submitted that Union Bank of India is the Financial Creditor. It filed a petition under Section 7 of the Insolvency and Bankruptcy Code, 2016. The petition was for initiation of Corporate Insolvency Resolution Process against the Corporate Debtor. The Hon'ble Adjudicating Authority passed an order dated 27.05.2020. The order appointed the Applicant as Interim Resolution Professional. The Applicant received the order copy on 01.06.2020. A copy of the order dated 27.05.2020 passed by this Hon'ble Adjudication Authority is annexed hereto and marked as Annexure-A.
- 2.3 The Committee of Creditors of the Corporate Debtor came to be formed. The Committee of Creditors confirmed the Applicant as Resolution Professional of the Corporate Debtor. The sole member of the Committee of Creditors is Union Bank of India. The Committee of Creditors met several times. In the 3rd meeting, the transaction audit was discussed. The Applicant acted upon the directions of the Committee of Creditors.
- 2.4 The Committee of Creditors requested that transaction audit of the Corporate Debtor take place. Pursuant to the same, the Applicant appointed M/s Pipara & Co. LLP. The appointment was in the 3rd meeting of the Committee of Creditors. The appointment was to carry out transaction audit of the transactions that the Corporate Debtor has carried out. A copy of the relevant

pages of the Minutes of the 3rd meeting of the Committee of Creditors and the Appointment letter dated 31.07.2020 is annexed hereto and marked as Annexure-B [Colly].

- 2.5 Pursuant thereto, M/s Pipara & Co. LLP issued the transaction report dated 22.10.2020. The report is qua the transactions that have been carried out by the Corporate Debtor. The report is annexed hereto and marked as Annexure-C. The contents of the said report are deemed to be part and parcel of the present IA. The same are not repeated and re-iterated in detail to avoid bulk. The Respondents are called upon to deal with the entire report in detail with supporting documents.
- 2.6 Some of the transactions in question have been set out in brief hereinbelow for the sake of convenience. The Applicant submits that there have been instances depicting preferential transactions carried out by the Corporate Debtor Company. These can be seen from the Transaction Report. Therefore, the Hon'ble Adjudicating Authority should pass an order to make such persons liable under Section 44. These persons are involved in the preferential transactions. The report covers the period from 01.04.2018 to 27.05.2020.
- 2.7 The Applicant submits that there have been instances depicting wrongful and fraudulent transactions carried out by the Corporate Debtor Company. These can be seen from the Transaction Report. These occurred during the

Corporate Insolvency Resolution Process period and prior to the commencement of Corporate Insolvency Resolution Process. The Applicant submits that such wrongful transactions have been carried out for defrauding the creditors. Therefore, this Hon'ble Authority should pass an order to make such persons liable under Section 66. These persons are involved in the fraudulent business transactions.

- 2.8 The books of accounts of the Corporate Debtor are observed non-genuine. This is as per the transaction audit. The audit revealed manipulations. Negative cash balances appeared in the books. These are impossible in reality. The audited balance sheets accepted these negative balances. This indicates non-genuine nature of the books.
- 2.9 For preferential transactions, there is repayment of unsecured loan. The Applicant submits that it has come to the knowledge of the Applicant through the Transaction Audit Report. The report covers the period from 01.04.2018 to 27.05.2020. The suspended management of the Company have carried out preferential transactions of an amount of Rs. 48,88,604 during the said period. There has been a decrease of unsecured loan from related parties. The parties which are involved in the said transactions, as per the Transaction Audit Report, are as follows: Champat

Sanghvi, Deepak Sanghvi, Tarjini Deepak Sanghvi, Indu Sanghvi, Sanjay Hasmukhbhai Barot.

2.10 For receipts from related parties through book entries. It has come to the knowledge of the Applicant through the Transaction Audit Report. The report covers the period from 01.04.2018 to 27.05.2020. Various adjustment entries amounting to Rs. 2,49,26,953 have been made to the various related parties of the suspended management. The parties who are involved in the said transactions, as per the Transaction Audit Report, are Indu Sanghvi, Greendiamz Exim Pvt Ltd, Tarjini Deepak Sanghvi, and others. The Applicant seeks the interference of this Hon'ble Adjudicating Authority against the actions of the suspended management for preferential transactions amounting to Rs. 2,98,15,557. Annexed hereto marked as Annexure-D is the table depicting the details of preferential transactions.

2.11 The Applicant submits that it has come to the knowledge of the Applicant through the Transaction Audit Report. The report covers the period from 01.04.2018 to 27.05.2020. The suspended management of the Company have carried out fraudulent trading and wrongful transactions during the said period. The fraudulent and wrongful transactions as per the Transaction Audit Report are as follows. Transaction violating sanction terms of financial creditors is rotation of sales through other bank accounts. As per the sanction letter of Union

Bank of India dated 28.03.2013, the Corporate Debtor should have routed their entire turnover through cash credit account only. It should close all their accounts with other banks and submit closure certificate.

2.12 The Corporate Debtor has not followed the sanction terms, which leads to the violation of the same. The Corporate Debtor had routed the funds through other banks rather than the cash credit account as held with the financial creditor. These funds were generated by the Corporate Debtor by giving the factory premises property on lease to M/s Sunshield Biotech LLP and M/s Rosova Greens LLP without the permission of financial creditor. The property was kept as mortgaged with them. The total funds involved in such transactions is Rs. 1,66,79,618. These funds were used for various operational transactions. There were also instances observed that the suspended management also introduced unsecured loans via cash in the said financial year in which the rental receipts were booked in the company.

2.13 The books of accounts show various cash payments and also negative cash balance of Rs. 70,908. As per the transaction auditor's observations, it is clear that a negative cash balance in the financial year 2018-19 and 2019-20 tantamounts to manipulations of books of accounts. Since it is not possible to have negative cash balance at any point in time. Also it is pertinent to note that the said negative cash balance also forms the part of

the audited balance sheet. Meaning thereby that the said negative cash balance is duly accepted by the Corporate Debtor and statutory auditors as a matter of fact. This is practically not possible, indicating that cash expenses were done beyond the books or cash income has not been accounted for or any other reason.

2.14 The Corporate Debtor had mortgaged the property second floor, Sugam Corporate House, Opp. Doctor House, Near Parimal Garden Cross Roads, Near Railway Under Bridge, Ambawadi, Ahmedabad to the financial creditor. However, the Corporate Debtor entered into a sales agreement of the said property with Mr. Chandreshbhai Champaklal Shah of M/s Atul Agency. The counter party had also made the payment amounting to Rs. 1,96,65,805. This is a fraudulent transaction entered by the Corporate Debtor without any prior approval of the financial creditor. Thus the amount of Rs. 1,96,65,805 is obtained by fraudulent transactions.

2.15 It was observed during the time of analysis of the books of accounts of the Corporate Debtor that the research and development cost amounting to Rs. 7,06,83,660 was written off by the Corporate Debtor without providing any supporting or information regarding the cost incurred. On inquiry about the expenses of such huge amount, the only reply given by the suspended management was that as the technology used by the Corporate Debtor was new in Indian market, they had to invest lot of funds in

research and development of the product before arriving at final product. These expenses were related to the professionals fees paid and other expenses incurred at the development of the product. As the Corporate Debtor failed to revert the details about the transactions and the amount being significant, it is considered as fraudulent and wrongful trading.

2.16 On verification of the salary register and entries in the books of accounts, various differences have been found amounting to Rs. 7,24,160 during the financial year 2018-19, 2019-20 and 2020-21. Also on further verification of books of accounts pertaining to financial year 2018-19, there has been an adjustment entry of Rs. 56,67,185 reducing the salary expenses. Thereby reducing the profits by Rs. 56,67,185 in the audited financials. The Applicant therefore seeks the interference of this Hon'ble Adjudicating Authority against the actions of the suspended management and other parties amounting to Rs. 11,34,91,336. Annexed hereto marked as Annexure-E is the table depicting the details of fraudulent and wrongful transactions.

2.17 The Applicant submits the other observations found by the transaction auditor through the Transaction Audit Report which is covering the period from 01.04.2018 to 27.05.2020. Annexed hereto marked as Annexure-F is the table depicting the details of other observations by the transaction auditor. The total amount involved in

aforesaid preferential transactions and fraudulent transactions is Rs. 14,33,06,893. Annexed hereto marked as Annexure-G is the summary of the aforesaid observations of the transaction auditor which are made by him in his Transaction Audit Report.

- 2.18 In view of above narrated facts, the Applicant has sought to allow the present application, pass appropriate order directing the Respondents 1 to 6 jointly and or severally to pay sum to the tune of Rs. 14,33,06,893 to the account of the Corporate Debtor for distribution as per law, pass appropriate orders directions against the Respondents in terms of section 43, 44, 45, 50, 66, 67, 71, 72 and 73 of the Code, and pass such other and further orders as this Hon'ble Authority may deem fit.
3. That on issuance of the notice in the I.A. and after service of notice, only, Respondent No.1, 2 & 4 appeared through their Counsels and R-1 & R-4 filed their respective replies. However, after due service of notice, neither, the Respondent No.2, 3, 5 and 6 appeared nor filed any reply. Hence, Respondent No.3, 5 and 6 were proceeded **Ex-Parte** vide order dated 10.01.2024.
4. The Respondent No.1 filed Affidavit in reply on 29.06.2021 vide Inward Dairy No. 9532020/3 denying various

averments made in the I.A. The contentions of the Respondent No.1 are mentioned hereunder: -

- 4.1 The respondent No.1 states that the application serves as a hollow counter attack tactic against the application filed by the original applicant before this Tribunal. It lacks truth and substance. The application represents a frivolous attempt to waste time of the Tribunal. A para-wise reply to the application is submitted here. All statements in the application except those admitted are denied.
- 4.2 The respondent No.1 states that para 1 of the IA stands as a matter of record with nothing to comment on it. Regarding para 2 no infirmity delinquency or distortion exists in the original application. No obligation requires filing a counter affidavit or objects. Such filing may occur with Tribunal permission if needed. This situation does not amount to admission. The applicant attempts to buy time by filing this IA without reason substance or material facts.
- 4.3 The respondent No.1 states that preferential transactions described in Grounds A receive a reply divided into Part A and Part B. In Part A on repayment of unsecured loan the transaction audit report covers 01.04.2018 to 27.05.2020. The alleged transaction does not qualify as preferential. Balances of each party remain unreduced for the review period and have increased instead. No

jeopardy effect arises for the secured creditor regarding unsecured loans of related parties annexed as Annexure A.

4.4 The respondent No.1 states that as described on page no. 183 annexed D to the application payments occurred to parties during FY 2018 onwards till 2020-21. Accounts perusal reveals parties infused more amount in the review period than debited to their accounts. Parties brought amounts as temporary loans for miscellaneous expenditure or salary. Some amount withdrew from that credit. Company books show credit balances for all parties in the review period. Allegation on repaying unsecured loans before honouring Financial Creditors dues proves untenable.

4.5 The respondent No.1 states that on receipts from related parties through book entries adjustment allegation lacks correctness and rests on wrong footing. Adjustment entries for Rs. 2,49,26,953 did not occur to various related parties of suspended management. Amount on party credit side inadvertently received correction to the related account. In Greendiam Exim P Ltd and Tarjini Sanghvi case Tally Operator opened two accounts which merged later. Transfer entries resulted from that merger and do not constitute adjustment entries.

4.6 The respondent No.1 states that for credit entry favoring Indu Sanghvi Rs. 1,65,00,000 came from Atul Prakashan

against sale of Ground Floor Sugam Corporate House Nr Parimal Garden Ahmedabad. Party paid directly to Green Diam Biotech Ltd. Entry correction credited amount to Indu Sanghvi as property belongs to her. No wrong occurred by suspended management. Adjudicating authority needs no involvement in this.

4.7 The respondent No.1 states that on Para No B of Grounds alleging fraudulent and wrongful trading allegations lack basis and merits. Review transactions span 01.04.2018 to 27.05.2020. Wrongful trading allegation involves transactions known to secured creditor or exaggerated. Account became NPA on 31.12.2013. CD routed transactions through financial creditor only.

4.8 The respondent No.1 states that in 2015 CD wrote to UBI on job work of M/s Sunshield Biotech LLP vide letter dated 05.08.2015 annexed as Annexure B. Secured creditor gave written permission vide letter dated 12.08.2015 annexed as Annexure B-1. Secured creditor retains 20% of CD deposits for Sunshield Biotech LLP annexed as Annexure C. For transaction with Rosova Greens LLP ledger account appears annexed as Annexure D. Job work undertook to avoid detaching or retrenching workers staff for July 2019 to June 2020.

4.9 The respondent No.1 states that Krish Biotech LLP acts as company customer giving job work preparation to CD. Amount remains receivable from Krish Biotech by CD.

CD undertook job work assignment for the period annexed as Annexure E. Charge holder bank disallowed transactions in their bank. Expenditure became necessary for raw materials salary to workers staff electricity bill etc to keep plant machinery working and continue salary for employment generation.

4.10 The respondent No.1 states that some transactions routed through Bank of Maharashtra annexed as Annexure F and Social Co-Operative Bank Ltd annexed as Annexure G showing accounts for salary UGVCL payment miscellaneous expenditure and worker salary. Total credit of Rs. 15,84,964 attributes to Champat Sanghvi Rs. 1,00,000 transfers from Bank of Maharashtra Rs. 2,00,000 and Rosova LLP receipt Rs. 12,84,964. No loan introduction occurred here.

4.11 The respondent No.1 states that instances alleging FY 2018-19 unsecured loans via cash where rental receipts booked represent rental income known to Union Bank. Negative cash balance involved inadvertent omission of entries to Rs. 70,000 approx now corrected without prejudicing bank finance. Property sold to Chandresh Champaklal Shah M/s Atul Agency locates on second floor of Corporate House. Whole building planned sale for Financial Creditor payment.

4.12 The respondent No.1 states that in Green Diam Exim P Ltd account with lenders Union Bank of India and State

Bank of India OTS sanctioned. Consortium bankers released some properties. Bank knows property transactions. Borrower informed bank after agreement execution annexed as Annexure H. Amount deposited in Green Diamz Exim P Ltd account for loan repayment. Company paid Rs. 50,00,000 towards OTS accepted by Financial Creditor.

4.13 The respondent No.1 states that R&D cost Rs. 7,06,836.60 written off by CD for unique project first in India requiring research from 2009-2012. Explanation given to Pipara & Co and Central Excise in 2015 foregoing CENVAT credit Rs. 1,25,00,000 due to no manufacture and wastage under R&D annexed as Annexure I. IT authority considered explanation for 2012-13 accounting year validly annexed as Annexure J. Salary difference Rs. 7,24,000 due to unsigned daily workers entries. Property leased to Sunshield with salary in payable then paid account no illegal adjustment annexed as Annexure K.

4.14 In view of above narrated facts, the respondent No.1 has sought the dismissal of the application.

5. The Affidavit in reply by the Respondent No.4 was submitted date 12.08.2021 vide Inward Dairy No. 9532020/5 wherein, made the following submissions: -

- 5.1 The Respondent No.4 states that she is opponent no.4 in the interim application and a director of the company. She rebuts allegations on entry of Rs. 1,65,00,000 and other items. These do not fall under sections 43 and 66 of IBC for preferential or fraudulent transactions.
- 5.2 The respondent No.4 states that the application by the applicant is not maintainable as per Regulation 35A of IBBI (Resolution Process for Corporate Persons) Regulations, 2016. The resolution professional must file application before adjudicating authority for relief on or before 135 days from insolvency commencement date. The matter was admitted on 01.06.2020 and application filed on 16.11.2020 so it deserves dismissal. She reproduces Regulation 35A in the reply.
- 5.3 The respondent No.4 states that under Regulation 35A(1) the resolution professional shall form opinion on transactions under sections 43, 45, 50 or 66 by 75th day of insolvency commencement date. Under sub-regulation (2) if of opinion, determination shall be made by 115th day. Under sub-regulation (3) application to adjudicating authority for relief shall be on or before 135th day.
- 5.4 The respondent No.4 states that the Transaction Review Report issued by M/s. Pipara & Co. does not depict true picture of transactions. It misleads the tribunal on entry pertaining to her name and other entries which are explained further.

- 5.5 The respondent No.4 states that amount of Rs. 1.65 crore approx. is shown in her name and alleged as adjustment entries to manipulate books to show higher unsecured loans from related parties. The amount of Rs. 1,65,00,000 was received from Atul Prakashan against sale of GF, Sugam Corporate House, Nr. Parimal Garden, Ahmedabad. The party paid the amount directly to Green Diamz Biotech Ltd. so shown as if she is creditor for the company.
- 5.6 The respondent No.4 states that entry was made to set right by debiting the company for the amount and crediting the same on her name. This reduces name of creditors for the company and avoids unnecessary show in list of creditors. Passing of the entry is journal entry for such purpose to depict true value of balance sheet. Allegation for such entry is hue and cry by CA firm creating misleading situation.
- 5.7 The respondent No.4 states that the transaction is covered under assumption of section 53 to avail credit of amount in case of liquidation of the company. It is mere assumption and not correct as passing journal entry crediting her account results in reduction of list of debtors of the company. This reduces debt of the company in case if liquidation process is to be followed.

5.8 In view of above narrated facts, the Respondent No.4 has sought to be pardoned from the relevant proceedings

6. The matter was adjourned time to time. Vide order dated on 19.12.2022 the IA/1110(AHM) 2022, the Resolution Professional was substituted by the Liquidator. Thereafter, the Applicant filed Written Synopsis on 25.09.2025 vide inward Diary No. D-6522. The major contentions of the Applicant are as follows: -

6.1 The Applicant states that on 28.03.2013 Union Bank of India issued sanction letter to corporate debtor to route entire turnover through cash credit account and close other bank accounts with submission of closure certificate. Transaction audit by Pipara & Co. LLP for period 01.04.2018 to 27.05.2020 found preferential transactions of Rs. 2,98,15,557 and fraudulent and wrongful trading of Rs. 11,34,91,336 by suspended management. Account became NPA on 31.12.2018 as per respondent reply but corporate debtor routed transactions through financial creditor initially. No specific judgment is relied for this sequence but facts support violations under IBC sections 43 and 66.

6.2 The suspended management repaid unsecured loans of Rs. 48,88,604 to Respondents 1 to 5 before financial creditors dues in FY 2018-19, 2019-20 and 2020-21. Respondent 1 replied parties infused more than debited

with credit balances. Respondent 4 replied Rs. 1,65,00,000 from Atul Prakashan for property sale adjusted to reduce creditor list via journal entry. Rejoinder is withdrawals preferred related parties over secured creditors and not allowed despite infusions. No specific judgment is relied but under IBC section 43.

6.3 The adjustment entries of Rs. 2,49,26,953 passed to manipulate books to show higher unsecured loans from respondents 3, 4 and 6 in review period. Respondent 1 replied no adjustments to related parties and inadvertent credits corrected. Rejoinder is reply unsatisfactory as tally data shows manipulations to inflate unsecured loans. Amount is nil but considered preferential under IBC for tax avoidance and higher infusions by suspended board and relatives. No specific judgment is relied but aligns with IBC avoidance provisions.

6.4 The fraudulent transaction violated sanction terms by routing sales through other banks with Rs. 1,66,79,618 via Bank of Maharashtra and Social Co-operative Bank. Respondent 1 replied after NPA bank restricted transactions so routing needed for raw materials salary electricity to keep plant operational and employment. Rejoinder is no proof of approval for other accounts and tally ledgers by suspended management not genuine per auditor manipulation concerns. Funds for operations and cash unsecured loans in same FY as rental receipts. No specific judgment is relied but under IBC section 66.

- 6.5 The books showed negative cash balance of Rs. 70,908 in FY 2018-19 and 2019-20 indicating manipulations as impossible and accepted in audited balance sheet. Respondent 1 replied negative balance corrected without prejudice to bank. Rejoinder relies on application and auditor report suggesting unbooked cash expenses or income. Fraud minimum Rs. 70,908 per accounting policy violation. No specific judgment is relied but IBC section 66 applies.
- 6.6 The sales agreement on mortgaged property obtained Rs. 1,96,65,805 fraudulently deposited in Green Diamz Exim Pvt Ltd for loan repayment with Rs. 50,00,000 toward one time settlement. Respondent 1 replied proceeds deposited for bank loan and offer accepted. Rejoinder is execution on mortgaged property is default and letters for one time settlement lack bank confirmation. Full amount fraudulent as deposited in different company. No specific judgment is relied but under IBC section 45.
- 6.7 The research and development cost Rs. 7,06,83,660 written off without supporting cost information in books analysis. Respondent 1 replied project unique in India needing research with explanation to auditor and placed Central Excise show cause notice reply and income tax order for AY 2013-14. Rejoinder relies on application and auditor report that notice and reply insufficient for expenses. Raw material wasted or unused loss to

financial creditor without purchase documents. No specific judgment is relied but under IBC section 66.

6.8 The salary payments differences Rs. 7,24,160 in FY 2018-19 2019-20 2020-21 and adjustment Rs. 56,67,185 reducing expenses in FY 2018-19 audited financials on verification. Respondent 1 replied salary register per factory act possible missing signatures from daily workers with salary payable accounts on record. Rejoinder is no sufficient proof and tally extracts not for correct payments. Financial loss and fraudulent as mortgaged property rented without permission rent reduced from Rs. 9,30,000 pm to Rs. 2,36,000 pm. No specific judgment is relied but under IBC section 66.

6.9 The other observations by transaction auditor table annexed and respondent 4 stated regulation 35A of CIRP regulations 2016 requires filing on or before 135 days of insolvency commencement so dismiss application. Rejoinder is timelines directory not mandatory. Relies on Aditya Kumar Tibrewal RP vs Om Prakash Pandey Suspended Director by NCLAT New Delhi, Chandresh Jajoo vs Vikas Garg RP by NCLT New Delhi and Shekhar Arvind Parkhi RP for Green India Building Systems and Services Pvt Ltd vs Arun Shenoy and Anr by NCLT Mumbai Bench.

6.10 In view of above narrated facts the Applicant has sought declaration of transactions as preferential fraudulent and

wrongful under IBC sections 43 45 46 66 and direction to respondents to pay Rs. 14,33,06,893 to liquidator for corporate debtor assets.

7. We have also heard Ld. Counsel for Applicant/Liquidator, Considered the Replies of the Respondent No.1 & 4, **Ex-parte** against the Respondent No.3, 5, 6 and perused the material available on record. The following issues raised before the Tribunal are: - The following issues are framed for determination: -

- (i) **Issue No. 1:** Whether the application is time-barred under Regulation 35A of the CIRP Regulations, 2016, as filed beyond the **130-day** limit from the insolvency commencement date of 01.06.2020?
- (ii) **Issue No. 2:** Whether repayments of unsecured loans totalling **Rs.48,88,604** to related parties (directors and their relatives) during 01.04.2018 to 27.05.2020 constitute preferential transactions under Section 43 of the Insolvency and Bankruptcy Code, 2016?
- (iii) **Issue No. 3:** Whether book entry adjustments crediting **Rs.2,49,26,953** as unsecured loans to related parties during 01.04.2018 to 27.05.2020 constitute preferential transactions under Section 43 of the Insolvency and Bankruptcy Code, 2016?
- (iv) **Issue No. 4:** Whether the write-off of R&D costs amounting to **Rs.7,06,83,660** without supporting documents during 2009-2012 (reflected in financials up to 2012-13) constitutes fraudulent or wrongful trading under Section 66 of the Insolvency and Bankruptcy Code, 2016?

- (v) **Issue No. 5:** Whether negative cash balances in books (e.g., **Rs.70,908** across 2018-19 and 2019-20) indicate manipulation and constitute fraudulent trading under Section 66 of the Insolvency and Bankruptcy Code, 2016?
- (vi) **Issue No. 6:** Whether the sale of mortgaged property (second floor, Sugam Corporate House) on 23.05.2015 for **Rs.1,96,65,805** without financial creditor's approval constitutes a fraudulent transaction under Section 66 of the Insolvency and Bankruptcy Code, 2016?
- (vii) **Issue No. 7:** Whether salary payment differences (**Rs.7,24,160** between registers and books across 2018-19, 2019-20, and 2020-21) constitute fraudulent adjustments under Section 66 of the Insolvency and Bankruptcy Code, 2016?
- (viii) **Issue No. 8:** Whether routing funds totalling **Rs.1,66,79,618** through other bank accounts (Bank of Maharashtra and Social Cooperative Bank) in violation of sanction terms during 2018-19 and 2019-20 constitutes wrongful trading under Section 66 of the Insolvency and Bankruptcy Code, 2016?
- (ix) **Issue No. 9:** Whether the Respondents are liable to make any contribution or restitution under Sections 44, 66 or 67 of the IBC?

**OBSERVATION OF THE TRIBUNAL;**

8. **Findings on Issue No.1;** Whether the application is barred by limitation under Regulation 35A of CIRP Regulations, 2016?

8.1 The Insolvency Commencement Date in the present matter is 01.06.2020 as recorded in the application (I.A. No.828 of 2020 IA Filed on 16.11.2020 at Annexure-A).

Regulation 35A(3) of the IBBI (Insolvency Resolution Process for Corporate Persons) Regulations, 2016 prescribes that the Resolution Professional shall file an application for avoidance transactions on or before the 130<sup>th</sup> day from the commencement date. The present interlocutory application seeking avoidance relief under Sections 43, 45, 50 and 66 of the IBC was filed on 16.11.2020, which is beyond the stipulated 130-day timeline.

8.2 The Respondent No.4 in his Affidavit in Reply (I.A. No.828 of 2020 Reply R-4 Filed on 11.08.2021 at Preliminary Submission Para 2) has raised a specific preliminary objection that the application is not maintainable and deserves to be dismissed for non-compliance with the mandatory timeline under Regulation 35A. The Respondent has quoted the full text of Regulation 35A and contended that the filing beyond the 135th day renders the application barred.

8.3 The Applicant in the Synopsis (IA No.828 of 2020 Synopsis filed by the Applicant 24.09.2025) has rebutted this objection by submitting that the timelines prescribed under Regulation 35A of the CIRP Regulations, 2016 are directory in nature and not mandatory. The Applicant has relied on judicial precedents to argue that strict adherence is not required, especially when the delay is explained by the need for a comprehensive transaction audit.

8.4 The Hon'ble NCLAT in ***Aditya Kumar Tibrewal (RP) v. Om Prakash Pandey and Ors., (2022) ibclaw.in 278 NCLAT*** decided on 06.04.2022) and in ***Prasant Chandra Rath v. Surya Kanta Satapathy (RP), (2022) ibclaw.in 789 NCLAT*** decided on 30.09.2022) has held that the timeline under Regulation 35A is directory and not mandatory, as rigid enforcement would defeat the purpose of identifying avoidance transactions dependent on factors beyond the RP's control. Similar views have been expressed in ***Jagdish Kumar Parulkar RP v. Vinod Agarwal Ex-Director, (2023) ibclaw.in 132 NCLAT*** decided on 16.02.2023 and ***Tenny Jose v. Prathap Pillai (RP), (2023) ibclaw.in 495 NCLAT***, decided on 04.08.2023) emphasising that the provision imposes a duty but allows flexibility.

8.5 Although, Hon'ble NCLAT in ***Prasant Chandra Rath v. Surya Kanta Satapathy (RP), (2022) ibclaw.in 789 NCLAT***, decided on 30.09.2022) primarily dealt with condonation of delay in a different context, it supports the principle that satisfactory explanation for delay can be considered. The Hon'ble Delhi High Court Division Bench in ***Tata Steel BSL Ltd. v. Venus Recruiter Pvt. Ltd. & Ors., (2023) ibclaw.in 09 HC*** decided on 13.01.2023 also inter-alia clarified that avoidance proceedings are independent and can survive beyond CIRP timelines, reinforcing that procedural timelines

should not bar substantive justice. This view has been consistently followed in subsequent rulings up to 2025.

- 8.6 Considering the consistent judicial pronouncements that the 130-day timeline under Regulation 35A is directory, the delay in filing the present application due to the completion of the transaction audit by Pipara & Co. LLP (as mentioned in the main IA at Annexure-C) is condonable. Therefore, the application is not barred by limitation, and the preliminary objection raised by the Respondents is liable to be rejected. Accordingly, **Issue No.1** is decided in favour of the Applicant.

**9. Findings on Issue No.2:** Whether repayments of unsecured loans totalling **Rs.48,88,604/-** to related parties (directors and their relatives) during 01.04.2018 to 27.05.2020 constitute preferential transactions under Section 43 of the Insolvency and Bankruptcy Code, 2016?

- 9.1 The Transaction Audit Report by Pipara & Co. LLP, annexed as Annexure-C to the IA filed on 16.11.2020, details repayments of Rs.48,88,604/- made to related parties, including directors and relatives, on account of antecedent unsecured loans during the two-year look-back period applicable to related parties. These transfers satisfy the requirement under Section 43(2)(a) as they relate to pre-existing financial debts owed by the corporate debtor. The repayments enable these related party creditors to recover amounts ahead of other

creditors. This disturbs the equitable distribution mechanism envisaged under Section 53 of the Code.

- 9.2 The Respondent No.1 in the reply filed on 11.08.2021 relies on ledger accounts annexed as Annexure-A, claiming no net reduction in related party loan balances and asserting fresh infusions exceeded repayments. However, Section 43 applies to individual transfers that meet the criteria of preference, without requiring a net reduction over the entire period. The provision creates a deeming fiction for each qualifying transfer made in favour of a related party creditor. The focus remains on whether the specific repayment puts the beneficiary in a better position than in liquidation.
- 9.3 The Applicant/Liquidator's Synopsis dated 24.09.2025 emphasises that mere Tally ledgers prepared by suspended management cannot override the auditor's findings on preferential repayments. The attached documents in replies lack independent corroboration and fail to disprove the preferential nature of outflows. Section 43(2)(b) is fulfilled as these repayments improve the position of related parties in the Section 53 waterfall. Related parties, being unsecured creditors, would rank lower without such payments.
- 9.4 Under Section 43(4)(a) of the Code, preferences to related parties within two years preceding insolvency commencement are deemed given at relevant time. The

repayments here fall squarely within this period and involve transfers benefiting creditors on antecedent debts. No exclusion under Section 43(3) applies, as these are not shown to be in ordinary course of business or for new value. The transactions thus qualify as avoidable preferences.

9.5 The core objective of Section 43 is to prevent depletion of the corporate debtor's asset pool by favouring select creditors nearing insolvency. These repayments to directors and relatives exemplify such favouritism over financial creditors like Union Bank of India. The pleadings and annexures confirm the transfers without adequate justification negating preference. Avoidance ensures restoration for fair distribution among all creditors.

9.6 The Supreme Court in **Anuj Jain IRP for Jaypee Infratech Ltd. v. Axis Bank Ltd., (2020) ibclaw.in 06 SC**, decided on 26.02.2020), held that mortgages to secure related party debts were preferential. Similarly, in **Phoenix Arc Pvt. Ltd. v. Spade Financial Services Ltd. & Ors., (2021) ibclaw.in 03 SC**, decided on 01.02.2021), held that withdrawals by related entities were avoided despite claims of commercial normalcy. Hon'ble NCLAT in **GVR Consulting Services Pvt. Ltd. v. Pooja Bahry, (2023) ibclaw.in 261 NCLAT** dated 24.04.2023 held that the transaction is preferential or

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not, the intent of Corporate Debtor is not relevant since Section 43 of IBC, effect determines preference.

9.7 Upon comprehensive analysis of the IA, replies, synopsis, annexed documents and precedents, the repayments of Rs.48,88,604/- constitute preferential transactions under Section 43 of the Code. These transfers meet all ingredients of sub-sections (2) and (4), warranting avoidance orders under Section 44. The related parties gained undue advantage at the expense of the creditor body. Therefore, the transactions are liable to be reversed. Thus, **Issue No.2** is decided affirmatively in favour of the applicant. The transactions details **Rs.48,88,604/-** are declared preferential under Section 43 of the IB Code.

**10. Findings on Issue No. 3;** Whether book entry adjustments crediting **Rs.2,49,26,953/-** as unsecured loans to related parties during 01.04.2018 to 27.05.2020 constitute preferential transactions under Section 43 of the Insolvency and Bankruptcy Code, 2016?

10.1 The Transaction Audit Report by Pipara & Co. LLP, annexed as Annexure-C to the IA filed on 16.11.2020, identifies these adjustment entries as creating fictitious unsecured loans from related parties without corresponding actual fund inflows. This artificially inflated liabilities towards related parties during the lookout period. The Applicant alleges these entries

manipulated books to position related parties advantageously over other creditors. The Applicant's Synopsis filed on 24.09.2025 reiterates that mere Tally ledgers cannot prove genuineness given auditor concerns on accounting manipulation.

10.2 Page 61 of the Application (Page 26 of the Transaction Audit Report) provide details of the receipt of unsecured loans through adjustment entries. Amounts of Rs 1,65,07,580, Rs 78,19,373, and Rs 6,00,000 are credited to the accounts of Indu Sanghavi, Greendiam Exim Pvt. Ltd, and Trajini Deepak Sanghavi respectively.

10.3 The Respondents in Reply of R-1 filed on 11.08.2021 (Annexure-A ledgers) and Reply of R-4 claim the entries were corrective, such as merging duplicate accounts or rectifying mis-posted receipts (e.g., property sale proceeds credited to Indu Sanghvi). They assert no actual preference since overall related party balances increased. However, no independent evidence like bank statements or third-party confirmations supports actual cash inflows corresponding to these credits. This leaves the adjustments unexplained beyond self-prepared ledgers.

10.4 Section 43(2) of the IBC deems a transfer preferential if it puts the beneficiary in a better position than under Section 53 distribution in liquidation. Here, crediting unsecured loans to related parties without real consideration effectively creates deemed transfers of value from the Corporate Debtor's asset pool. This

benefits insiders at the expense of genuine creditors like Union Bank of India. The entries fall within the relevant time as related party transactions (two-year lookout period).

10.5 The Hon'ble Supreme Court in **Anuj Jain IRP for Jaypee Infratech Ltd. v. Axis Bank Ltd., (2020) ibclaw.in 06 SC**, dated 26.02.2020, held that transactions benefiting related entities by transferring corporate debtor's property, even indirectly, are preferential if they improve the beneficiary's position in insolvency. Such manipulative transfers are avoidable to protect creditor parity.

10.6 In **Chetan T. Shah v. Mr. Jayesh Vinod Valia, (2023) ibclaw.in 120 NCLT** dated 21.03.2023, NCLT Mumbai held that book entries setting off receivables/liabilities among related parties constitute transfers of property (debtors) amounting to preferential transactions under Section 43. Mere journal adjustments without arm's length consideration are avoidable as they preferentially benefit related parties.

10.7 Considering the lack of explanation of entries, corroborative proof from Respondents, auditor-flagged manipulations, and absence of ordinary course business justification, these adjustment entries are not bona fide corrections but deliberate preferences to related parties and their account balances have been inflated without

proper justification. They violate the IBC's objective of equitable distribution and are liable to be avoided under Section 44. Thus, **Issue No.3** is decided affirmatively in favour of the applicant. The transactions details of **Rs.2,49,26,953** as unsecured loans to related parties during 01.04.2018 to 27.05.2020 are declared preferential under Section 43 of the IB Code.

**11. Findings on Issue No.4:** Whether the write-off of R&D costs amounting to **Rs.7,06,83,660/-** without supporting documents during 2009-2012 (reflected in financials up to 2012-13) constitutes fraudulent or wrongful trading under Section 66 of the Insolvency and Bankruptcy Code, 2016?

11.1 The Transaction Audit Report prepared by Pipara & Co. LLP (Annexure-C to the IA filed on 16.11.2020) highlighted the capitalization of alleged R&D expenses totaling Rs.7,06,83,660 incurred between 2009 and 2012, followed by their complete write-off, while expressly noting the total lack of any primary evidence such as invoices, payment proofs, contracts, or third-party verifications. The auditor observed that such large-scale capitalization without substantiation artificially enhanced the asset base, misleading stakeholders about the company's true financial strength before the subsequent write-off concealed accumulated losses.

11.2 During the audit process, Pipara & Co. LLP raised specific queries seeking detailed explanations and

documentary proof for these R&D expenditures (as detailed in the follow-up queries reproduced in Annexure to the IA filed on 16.11.2020). The suspended management's response was limited to stating that transactions were handled by their previous chartered accountant and that efforts would be made to contact him, without furnishing any records or substantive clarification, thereby failing to rebut the prima facie indication of fictitious accounting entries.

11.3 The replies filed by the Respondents (Reply of R-1 filed on 11.08.2021 and Reply of R-4 filed on 11.08.2021) completely omitted any reference to or defence against the allegation of unsubstantiated R&D capitalization and write-off. No supporting documents, ledger extracts, or justifications were annexed or provided, leaving the auditor's adverse findings unchallenged and reinforcing the conclusion that these entries were not genuine business expenditures.

11.4 Section 66(1) of the IBC, 2016 empowers the Adjudicating Authority to direct contributions from persons knowingly carrying on business with intent to defraud creditors. Recording and subsequently writing off expenses of this magnitude without any traceable documentation demonstrates an intentional inflation of expenses and withdrawal of money from the corpus of the Corporate Debtor, misrepresentation of the company's financial position, aimed at claim of bogus expenses and siphoning

off the money from the Corporate Debtors and defrauding creditors and later writing off the expenses without bringing back the money to the Corporate Debtor and portraying a healthier balance sheet during the relevant periods up to 2012-13.

11.5 The Applicant's Synopsis filed on 24.09.2025 emphasized that reliance cannot be placed on internal Tally records alone, especially when the Transaction Auditor has independently flagged widespread concerns of accounting manipulation. Even after lapse of considerable time, no corroborative evidence has been produced by the suspended directors, solidifying the inference of deliberate fraudulent conduct prejudicial to the interests of creditors.

11.6 The Hon'ble NCLAT has consistently held that unexplained write-offs declared as fraudulent after audit scrutiny warrant liability under Section 66, as seen in cases where large unsubstantiated amounts were directed to be refunded. In ***Prasant Chandra Rath v. Surya Kanta Satapathy (RP), (2022) ibclaw.in 789 NCLAT*** decided on 30.09.2022, NCLAT held that such unexplained write-offs constituted fraudulent trading, stating: "we are inclined to agree with the Adjudicating Authority that there has been an unusual write-off of inventory as a fraudulent act... the convergence in the timing of the loss of inventory and the initiation of CIRP... cannot be viewed as mere coincidence. Such conduct

directly contravenes the objective of fair and transparent accounting, justifying personal contribution orders against the erstwhile directors.

11.7 Further, NCLAT in ***Anubhav Anilkumar Aggarwal and Anr. v. Rajendra Kumar Girdhar (RP) and An, (2025) ibclaw.in 964 NCLAT***, decided on 21.11.2025) held that once a transaction has been held to a fraudulent transaction there is no limitation to look back if the other ingredients of Section 66 (1) of the IBC are satisfied.

11.8 The absence of any rebuttal evidence shifts the evidentiary burden decisively, aligning with the principle that directors must satisfactorily explain suspicious transactions flagged in forensic or transaction audits. This unexplained bogus capitalization followed by write-off amounts to carrying on business for a fraudulent purpose, attracting the remedial provisions of Section 66 to augment the Corporate Debtor's assets for equitable distribution among creditors. Unlike avoidance provisions under Sections 43-51, Section 66(1) has no prescribed look-back period, allowing scrutiny of historical conduct discovered during CIRP/liquidation. Thus, **Issue No.4** is decided in affirmative in favour of the Applicant.

**12. Findings on Issue No.5:** Whether negative cash balances in books (e.g., **Rs.70,908** across 2018-19 and 2019-20) indicate manipulation and constitute fraudulent trading

under Section 66 of the Insolvency and Bankruptcy Code, 2016?

- 12.1 The Transaction Audit Report prepared by Pipara & Co. LLP, annexed as Annexure-C to the main IA filed on 16.11.2020, specifically identifies instances of negative cash balances aggregating to approximately Rs.70,908 during FY 2018-19 and 2019-20. The Auditor emphasises that cash in hand cannot physically become negative, making such entries inherently suspicious. These balances are shown through ledger extracts where cash payments exceed available cash without corresponding receipts. The Applicant relies on this to argue that the books reflect deliberate distortions to conceal improper fund utilisation.
- 12.2 In the detailed Reply filed by Respondent No.1 on 11.08.2021 (I.A. No.828 of 2020 Reply R-1), the suspended management admits the existence of negative cash balance to the extent of around Rs.70,000. They describe it as resulting from inadvertent entries that were not timely recorded or reconciled. The Respondents claim that these minor errors have subsequently been rectified in the books. However, no rectified ledger statements or journal vouchers evidencing the correction are annexed to the reply.
- 12.3 The Synopsis filed by the Applicant (Liquidator) on 24.09.2025 strongly contests the Respondents'

explanation as inadequate. It points out that all supporting documents produced by Respondents are merely Tally ledger printouts created under the control of suspended management. Given the Transaction Auditor's overall finding of accounting manipulation and non-genuine books, such self-generated records lack evidentiary value. The Applicant argues that negative cash entries form part of a pattern indicating lack of transparency in financial recording.

12.4 Section 66(1) of the IBC, 2016 imposes liability for fraudulent trading only when business is carried on with intent to defraud creditors or for any fraudulent purpose. The Hon'ble NCLAT in ***Renuka Devi Rangaswamy IRP v. Mr. Madhusudan Khemka, (2023) ibclaw.in 384 NCLAT*** (Chennai Bench) has held that mere irregularities or poor accounting do not meet this high threshold of proven fraudulent intent. Similarly, in ***Regen Powetech Pvt. Ltd. (Rep. RP Ebenezar Inbaraj) v. Wind Construction Ltd., (2022) ibclaw.in 793 NCLAT*** decided on 23.09.2022 (Chennai Bench), isolated discrepancies were not treated as fraudulent trading absent clear evidence of deceitful motive.

12.5 For wrongful trading under Section 66(2), liability arises if directors knew or ought to have known that insolvency was inevitable and failed to minimise potential loss to creditors. The Hon'ble NCLAT in ***Nalinesh Kumar Paurush and Ors. v. Arvind Mittal (RP) and Anr.,***

**(2025) ibclaw.in 808 NCLAT** decided on 25.09.2025 (New Delhi Bench) clarified that audit observations alone, without establishing knowledge of inevitability of insolvency and deliberate inaction, cannot sustain a finding under Section 66. A small negative cash balance explained as clerical error falls short of these statutory ingredients.

12.6 Although the negative cash balances seriously undermine the reliability and genuineness of the Corporate Debtor's books of accounts, they do not independently establish fraudulent trading under Section 66 of the IBC, 2016. The amount is comparatively insignificant, and the Respondents' plea of inadvertent mistake, though poorly substantiated, aligns with judicial view that not every accounting lapse amounts to fraud. Nevertheless, this irregularity reinforces the broader concern regarding maintenance of proper books and warrants heightened scrutiny of other transactions flagged by the Auditor. Hence, **Issue No.5** is decided in negative against the Applicant.

**13. Findings on Issue No.6:** Whether the sale of mortgaged property (second floor, Sugam Corporate House) on 23.05.2015 for **Rs.1,96,65,805** without financial creditor's approval constitutes a fraudulent transaction under Section 66 of the Insolvency and Bankruptcy Code, 2016?

- 13.1 The Transaction Audit Report prepared by Pipara & Co. LLP, annexed as Annexure-C to the IA filed on 16.11.2020, covers the period from 01.04.2018 to 27.05.2020. This report identifies preferential transactions and fraudulent/wrongful trading within that timeframe but makes no mention of any sale of the second floor of Sugam Corporate House in 2015. The Applicant's pleadings and Synopsis dated 24.09.2025 also do not raise this 2015 transaction as fraudulent under Section 66.
- 13.2 Annexure-7 to the Reply of R-4 filed on 11.08.2021 includes a Bank of Baroda certificate dated 22.07.2020 confirming an RTGS transfer of Rs.1,96,65,805 on 10.06.2013 from buyer Atul Agency to the Corporate Debtor. Respondent No. 4 affirms in her affidavit that this payment relates to her personal property, with direct deposit to the company account followed by a corrective journal entry. No evidence from the Applicant disputes the authenticity of this payment or its personal nature.
- 13.3 The Applicant has not provided any document proving that the second floor of Sugam Corporate House was mortgaged to Union Bank of India or any financial creditor at the time of sale. Pleadings focus on factory premises leased without permission, not this commercial property. The absence of charge details or NOC requirement evidence weakens any claim of violation impacting creditor security.

- 13.4 Section 66(1) of the Insolvency and Bankruptcy Code, 2016 applies to business carried on with intent to defraud creditors or for fraudulent purpose, discovered during CIRP or liquidation. This 2015 isolated property sale, occurring over five years before insolvency commencement on 27.05.2020, lacks demonstrated connection to ongoing fraudulent business conduct. No material shows knowing participation by respondents in defrauding creditors through this transaction.
- 13.5 Replies from R-1 and R-4 consistently explain the entry as rectification for proceeds of a personal asset sale, reducing apparent creditor obligations correctly. The Applicant's rejoinder in the Synopsis dated 24.09.2025 addresses only bank routing violations and journal entries in the review period, offering no rebuttal to this specific explanation. This unrebutted defence supports the transaction's legitimacy.
- 13.6 The sale consideration has been accounted in the books of account of the Corporate Debtor. Considering the law under Section 66 of the IBC, 2016, which requires clear proof of fraudulent intent in carrying on business, and the lack of specific allegations or evidence linking this 2015 sale to creditor fraud, it does not qualify as a fraudulent transaction. Thus, **issue No.6** is decided in favour of the respondents and against the Applicant, with no liability or directions arising from this transaction.

**14. Findings on Issue No.7:** Whether salary payment differences (**Rs.7,24,160** between registers and books across 2018-19, 2019-20, and 2020-21) constitute fraudulent adjustments under Section 66 of the Insolvency and Bankruptcy Code, 2016?

14.1 The Transaction Audit Report by Pipara & Co. LLP, annexed as Annexure-C to the IA filed on 16.11.2020, highlighted discrepancies in salary payments where amounts recorded in the books of accounts did not match the salary registers for the years 2018-19, 2019-20, and up to 2020-21. These differences totalled Rs.7,24,160 and raised concerns about potential manipulations in operational expenses. The Applicant contended that such inconsistencies indicated non-genuine books and possible fraudulent adjustments aimed at concealing true financial positions.

14.2 In response, Respondent No. 1, in the Reply filed on 11.08.2021, annexed detailed ledger accounts of salary payments (Annexure to Reply of R-1 Filed on 11.08.2021), including extracts from Bank of Maharashtra and Social Co-operative Bank showing actual disbursements primarily for salaries. The Respondent argued that funds routed through these banks were utilized for legitimate operational needs, including worker salaries, to keep the plant running despite restrictions from the financial creditor.

- 14.3 The Synopsis filed by the Applicant on 24.09.2025 reiterated that supporting documents provided by the Respondents were merely Tally ledger copies prepared by the suspended management. The Transaction Auditor had already flagged concerns over accounting manipulations, rendering such ledgers insufficient as genuine proof. No independent corroborative evidence, like bank statements reconciled with registers or third-party confirmations, was furnished to explain the specific salary discrepancies.
- 14.4 Under Section 66(1) of the Insolvency and Bankruptcy Code, 2016, fraudulent trading requires proof that the business was carried on with intent to defraud creditors or for any fraudulent purpose. The discrepancies in salary records, while indicating irregularities in bookkeeping, lack direct evidence linking them to an intent to defraud creditors. Mere inconsistencies in operational expense records do not automatically qualify as fraudulent adjustments without establishing knowledge and purposeful concealment benefiting the suspended management at creditors' expense.
- 14.5 Section 66(2) addresses wrongful trading where directors knew or ought to have known of no reasonable prospect of avoiding insolvency but failed to minimize potential loss to creditors. The salary payments, even with recorded differences, appear directed towards

maintaining operations and employment, as justified by the Respondents for preserving the going concern value of the Corporate Debtor. No material shows these differences resulted in siphoning funds or personal gains to the suspended directors.

- 14.6 Considering the pleadings, annexures, and provisions of the IBC, the salary payment differences of Rs.7,24,160 do not constitute fraudulent adjustments under Section 66, as the requisite element of fraudulent intent or wrongful continuation causing loss to creditors is not substantiated beyond audit observations. The discrepancies may reflect poor accounting practices but fall short of proving fraudulent or wrongful trading warranting personal contributions from the Respondents. Thus, **issue No.7** is decided in favour of the respondents and against the Applicant.

15. **Findings on Issue No.8:** Whether routing funds totalling **Rs.1,66,79,618** through other bank accounts (Bank of Maharashtra and Social Cooperative Bank) in violation of sanction terms during 2018-19 and 2019-20 constitutes wrongful trading under Section 66 of the Insolvency and Bankruptcy Code, 2016?

- 15.1 The Applicant alleges that the suspended management violated the sanction terms of Union Bank of India dated 28.03.2013, as detailed in the I.A. (Annexure-C - Transaction Audit Report), by routing sales and rental

proceeds through other banks instead of the designated cash credit account. This diversion amounted to Rs.1,66,79,618 and involved leasing mortgaged factory premises without permission. The Applicant's Synopsis filed on 24.09.2025 reiterates that no proof of permission for other accounts was provided, and Tally ledgers alone cannot validate genuineness given auditor concerns on manipulations.

15.2 The Respondent No.1, in the Reply filed on 11.08.2021 (Annexure-F and Annexure-G - Ledgers of Bank of Maharashtra and Social Co-operative Bank; detailed Salary Paid Ledger extracts), contends that post-NPA declaration in 2013, the financial creditor restricted transactions in its account, necessitating use of other banks for essential operational payments. The funds primarily covered salaries to retain staff, electricity bills, and raw materials to maintain plant machinery in working condition and generate employment. Partial permission was obtained in 2015 for job work with Sunshield Biotech LLP as per Annexure-B (letter dated 05.08.2015 and bank reply dated 12.08.2015).

15.3 The Respondent No.4 supports this in the Affidavit in Reply filed on 11.08.2021, emphasising corrective entries and no personal gain. The Transaction Audit Report flags the violation but the attached bank ledgers demonstrate that the funds were credited to the bank accounts of the Corporate Debtor and accounted in the regular books of

account and these funds were utilised for legitimate business continuity expenses, including substantial salary disbursements, without evidence of siphoning or concealment from the financial creditor.

15.4 Under Section 66(1) of the IBC, fraudulent trading requires proof of business carried on with intent to defraud creditors, while Section 66(2) for wrongful trading applies if directors knew or ought to have known of no reasonable prospect of avoiding insolvency and failed to minimise potential loss to creditors. Mere breach of banking sanctions or diversion for operational needs does not per se establish such intent or failure, especially when aimed at preserving the going concern.

15.5 Jurisprudence establishes that bad commercial decisions or diversions without fraudulent purpose or personal benefit do not attract Section 66 liability, as audit reports alone cannot conclusively prove wrongful trading absent clear intent to defraud or minimise creditor losses. No material demonstrates personal enrichment or concealment; rather, the routing enabled continuation of operations in a distressed entity post-NPA.

15.6 Considering the pleadings, annexures, and applicable provisions of the IBC without any intent to defraud creditors being substantiated, the routing of funds through other banks for essential operational expenses does not constitute wrongful or fraudulent trading under

Section 66 of the Code. The issue is accordingly answered in the negative.

**16. Findings on Issue No.9:** Whether the Respondents are liable to make any contribution or restitution under Sections 44, 66 or 67 of the IBC?

16.1 From the findings on the preceding issues, this Tribunal has held that: -

- (a) The repayments of unsecured loans aggregating to Rs.48,88,604/- to related parties (Respondents 1 to 5) constitute preferential transactions under Section 43 of the Code.
- (b) The book entry adjustments crediting Rs.2,49,26,953/- as unsecured loans to related parties also constitute preferential transactions under Section 43 of the Code.
- (c) The write-off of unsubstantiated R&D costs amounting to Rs.7,06,83,660/- constitutes fraudulent trading under Section 66(1) of the Code.
- (d) The total amount involved in these avoidable and fraudulent transactions comes to Rs.10,05,73,217/- (Rupees Ten Crores Five Lakhs Seventy-Three Thousand Two Hundred Seventeen Only).

- 16.2 No liability arises under Sections 45, 50 or 67 of the Code, nor under Section 66 in respect of the other transactions examined in Issues No. 5 to 8.
- 16.3 The Respondents have not discharged the burden shifted upon them under Section 43(3) read with Section 44 & 66 to demonstrate that the impugned transactions were undertaken in the ordinary course of business or financial affairs of the corporate debtor or that they provided new value or were otherwise exempt.
- 16.4 The Respondents No. 3 (Mrs. Tarjini Deepak Sanghvi), No. 5 (Sanjay Hasmukhbhai Barot) and No. 6 (Greendiamz Exim Pvt. Ltd.) have been proceeded ex-parte. No defence or evidence has been placed on record on their behalf.
- 16.5 The Respondents No. 1 (Champat Sanghvi), No. 2 (Deepak Sanghvi) and No. 4 (Mrs. Indu Sanghvi) appeared through counsel initially but did not effectively rebut the presumption of preference or establish any statutory defence.
- 16.6 In view of the above, the Respondents 1 to 6 being the suspended directors are jointly and severally held liable to make restitution of the benefits received by them through the preferential transactions and fraudulent trading identified in **Issues No. 2, 3 and 4.**

17. In view of the above analysis and findings the following order is passed: -

- (i). The transactions identified in the Transaction Audit Report dated 22.10.2020 (Annexure-C) as preferential transactions aggregating to **Rs.2,98,15,557/-** (Rupees Two Crore Ninety-Eight Lakh Fifteen Thousand Five Hundred Fifty-Seven only) (Rs. 48,88,604 + Rs. 2,49,26,953) are declared to be preferential transactions under Section 43 of the Insolvency and Bankruptcy Code, 2016 and are liable to reverse and restore the said amount to the Corporate Debtor in terms of Section 44 of the Code.
- (ii). Further, in respect of the fraudulent write-off of **Rs.7,06,83,660/-**, to make contribution to the assets of the Corporate Debtor equivalent to the loss caused to the creditors, in terms of Section 66(1) of the Code.
- (iii). The Respondent No.1 to 6 are directed, jointly and severally to contribute and transfer the aggregate amount of **Rs.10,05,73,217/-** (Rupees Ten Crores Five Lakh Seventy-Three Thousand Two Hundred Seventeen Only)) to the bank account of the Corporate Debtor (in liquidation) for distribution in accordance with law as per Section 53 of the IBC within 45 days of this order as may be specified by the Applicant/Liquidator.

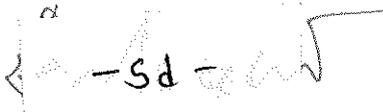
(iv). The aforesaid amount shall carry interest at 12.00% p.a. simple from the date of such preferential transactions until actual payment/realisation.

(v). In the event of failure on the part of the Respondents to comply with the aforesaid directions within the stipulated period, the Applicant/Liquidator shall be at liberty to initiate appropriate execution proceedings for recovery of the said amount from the Respondents as decree with attachment and sale of personal assets in accordance with law.

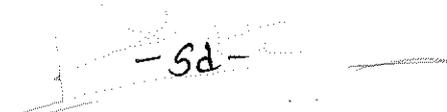
(vi). The prayers seeking directions under Sections 45, 50 and 67 of the Code are declined.

18. Accordingly, **I.A. No. 828/NCLT(AHM)/2020** in CP(IB) No.17/7(AHM)2019 filed by the Applicant/Liquidator is **partly allowed** in the aforesaid terms. No order as to costs.

19. A certified copy of this order may be issued, if applied for, upon compliance with all requisite formalities

  
**SANJEEV SHARMA**  
**MEMBER (TECHNICAL)**

SS

  
**SHAMMI KHAN**  
**MEMBER (JUDICIAL)**