



विनियमन एव पर्यवेक्षण विभाग

**Order**

**Under Sub-Section (6) of Section 29A of the National Housing Bank Act, 1987  
in respect of Rose Valley Housing Development Finance Corporation Limited**

**1. Background:-**

Rose Valley Housing Development Finance Corporation Limited, a company having its registered office at 5, Mangoe Lane, 1<sup>st</sup> Floor, Room No. 101, Kolkata - 700001 (hereafter referred to as "the Company" ) was granted Certificate of Registration (CoR) bearing No. 02.0068.08 dated 07-01-2008 without permission to accept public deposits under sub-section (5) of section 29A of the National Housing Bank Act, 1987 ("the NHB Act") subject to certain terms and conditions, among others, that the Company shall comply and continue to comply with the provisions of the NHB Act and all the Directions, Guidelines and instructions issued thereunder by the National Housing Bank ("NHB"), from time to time. Clause (a) of sub-section (1) section 29A of the NHB Act envisages that no housing finance institution which is a company shall commence or carry on the business of housing finance institution without obtaining a Certificate of Registration (CoR) from NHB.

2. The Company, however, failed to comply with the provisions of the NHB Act, and the Directions, Guidelines and instructions issued thereunder from time to time.

2.1 A Show Cause Notice was issued to the Company on 30-03-2016 for non-compliance of the provisions of section 29A of the National Housing Bank Act, 1987 on account of the following:-

- (i) The main shareholders of the Company are M/s Idea Projects Limited (24.50%) and Smt. Shubhra Kundu (20%), whose husband Shri Gautam Kundu is the Additional Director of Idea Projects Limited and is under trial by Enforcement Directorate;
- (ii) SEBI has taken action against directors of Idea Projects Limited and various companies/directors in Rose Valley Group;
- (iii) As per the Notes forming part of the accounts of the Company as on 30-09-2015 which have been certified by its Auditors, the Company had paid ₹ 9.67 lakh to Deputy Director, Enforcement Directorate, Kolkata following the order issued by Asst. Director, office of the Special Director, Eastern Region, Enforcement Directorate (ED), Kolkata and premature encashment of FDRs of State Bank of India, Tegharia, Raghunathpur Branch, by Enforcement Directorate amounting ₹ 341.04 lakh;
- (iv) Share capital of the Company has been stagnant at ₹ 10.21 crore for last three years. Further, the borrowings of the Company have been nil during last 5 years. In view of its

inability to borrow any amount from banks/financial institutions etc., on account of investigation against Rose Valley Group of Companies, the Company's ability to expand its capital or business does not seem to be feasible in near future;

- (v) The loans and advances of the Company are showing declining trend since last 3 years; and
- (vi) Profit after tax of the Company decreased by 65.63% to ₹ 0.11 crore during the year 2014-15 from ₹ 0.32 crore during the previous year 2013-14. With no increase in either capital or borrowings of the Company and this coupled with the decline in loans & advances, the Company may incur losses in future, if the present trend continues.

2.2 The Company replied vide its letter dated 10-05-2016 to the above Show Cause Notice that it had independent Board of Directors and maintained arm's length distance from the Rose Valley Group of Companies. However, it has acknowledged that the tag of Rose Valley has adversely affected the Company's performance. As a result, its bank accounts have also been blocked/seized by the investigating authorities. The reply of the Company was not found satisfactory as from the submissions made by the Company, it may be construed that its ability to expand its capital or business does not seem to be feasible in near future and also this will adversely affect its capital structure and earning prospects.

2.3 The issues raised in the said Show Cause Notice were also discussed in a meeting held with the officials of the Company on 18-07-2016, wherein the Company was informed that the words 'Rose Valley' in the name of the Company together with its Promoter company i.e. M/s Idea Project Limited have caused negative effect on the performance of the Company. Further, the Company informed that the Enforcement Directorate had seized ₹ 9.67 lakh and ₹ 341.04 lakh from their Current Account and Fixed Deposits accounts maintained with Bank of Baroda and State Bank of India, respectively, without communicating any reasons to them. Further, the Economic Offence Wing (EOW), Government of Orissa, Bhubaneswar, blocked the operations in the accounts of as many as 11 parties including their accounts maintained with State Bank of India, HDFC Bank, Axis Bank (₹3.00 crore), etc. The matter remained sub-judice and the Company was not made defendant in any case. Further, the Company informed that their fund to the tune of around ₹ 6.50 crores is blocked (Axis Bank - ₹ 3.00 crores and ED ₹ 3.50 crores), as a result their activities have been limited.

2.4 In this context, the Company was advised to furnish a concrete Business Plan approved by the Board of Directors and Shareholders of the Company, covering ways to raise the capital, improving public image, etc., and also to take appropriate legal course of action with the approval of their Board to defend their case in the matter of seizure of their bank accounts and submit the report to NHB on all these matters, within 2 months' time from the date of the said meeting. The Company replied vide its letter dated 16-09-2016 on the deliberations made in the meeting. However, it was not found satisfactory as the financial projections submitted do not reflect strong future prospects. Also, any adverse movement in its NPA portfolio will impact its Net Owned Fund (NOF), which was already near to the minimum NOF requirement.

2.5 Subsequently, another Show Cause Notice dated 26-10-2016 was issued to the Company for non-compliance of the provisions of the Housing Finance Companies (NHB) Directions, 2010 and Policy Circulars issued by NHB, as detailed below:

- (i) Company did not disclose the maturity pattern of assets and liabilities in its Notes to Financial statements, as prescribed in paragraph 2 of the NHB's Policy Circular No. 35 dated 11-10-2010 on "Asset Liability Management (ALM) System for HFCs - Guidelines". In this regard, Company's submission that "Company has not accepted any public deposits, thus the disclosure of maturity pattern of assets and liabilities is not required" is not acceptable, as the ALM Guidelines are applicable to non-deposit accepting HFCs, also.
- (ii) Company did not make necessary provisions for NPAs as per the Housing Finance Companies (NHB) Directions, 2010 (Paragraph 28 of the Directions). In terms of the said Directions, provisioning of 100% of the outstanding is required against Loss Assets. However, as on 31-03-2016, the Company had Loss Assets of ₹6.51 lakh against which it did not make any provision.
- (iii) Company did not furnish a copy of the Auditor's Report to the Board of Directors as required under paragraph 33 & 34 of the Housing Finance Companies (NHB) Directions, 2010.
- (iv) Company reported different CAR in different Statement/Return. It reported CAR of 414.14% in the Schedule-II of Half Yearly Return, while CAR of 378.46% was reported under the Notes Forming Part of the Accounts as on 31-03-2016.

The Company's reply dated 11-11-2016 to the foresaid Show-Cause Notice was considered and found not satisfactory.

2.6 The Company was last inspected with reference to its position as on 31-03-2016. Inspection findings and the contraventions of the provisions of the NHB Act and the Directions, Circulars, Guidelines, Codes etc., issued thereunder, were communicated to the Company vide NHB's letter dated 30-03-2017. The major findings are as under:

- i. NOF of the Company was ₹ 10.92 crore as against the reported NOF of ₹ 11.01 crore. Further, share capital was stagnant for the last 3 years, 'Nil' borrowings during last 5 years and there is declining trend in loans & advances and also in profit as it incurred losses during the year 2015-16 ;
- ii. Non-furnishing of various information/data to the Inspection Team during the course of inspection including the letters received from the Enforcement Directorate (ED), balance confirmation receipt, data on loan asset;
- iii. Investment Policy did not cover certain provisions of the Directions viz. inter-class transfer of investments, method of valuation of investments and method of charging depreciation;
- iv. Wrong asset classification;

- v. Short-provisioning due to wrong assets classification resulting in overstatement of Net Owned Funds by ₹ 0.09 crore;
- vi. Non-disclosure of fine/penalty of ₹ 5,000 in the "Notes of Accounts" to its Balance Sheet in the Annual Report for the year 2014-15;
- vii. Non-disclosure of provision in respect of the loans as pointed out in previous inspection, in the balance sheet for the year 2015-16;
- viii. Reported different CAR (as on 31-03-2016) in different Statement(s)/Return(s);
- ix. Absence of Board Approved Demand/Call Loans Policy;
- x. Non-compliance with certain provisions of Guidelines on KYC and AML Measures, Fair Practice Code, ALM Guidelines, NHB's Policy Circular No. 18 & 22, No. 40 ;
- xi. Non-disclosure of name of the major shareholder of the company having 24.5% of shareholding i.e. M/s Idea Projects limited by the Company in its Balance Sheet under the 'Details of shareholders holding more than 5%.

The Company's replies vide its letters dated 28-04-2017 and 04-05-2017 to the inspection findings were considered and found unsatisfactory.

2.7 As the Company's reply to the inspection findings were found not satisfactory, a further Show Cause Notice was issued to the Company on 09-06-2017 for non-compliance of the provisions of Section 29A of the National Housing Bank Act, 1987 and the supervisory concerns arising out of the observations contained in the NHB's inspection report w.r.t its position as on 31-03-2016. The major concerns were as follows:

- (i) The main shareholders of the Company are Idea Projects Limited (24.50%) and Smt. Shubhra Kundu (20%), whose husband Shri Gautam Kundu is the Additional Director of M/s Idea Projects Limited and is under trial by Enforcement Directorate. SEBI has also taken action against directors of M/s Idea Projects Limited and various companies/directors in Rose Valley Group. The Company also failed to disclose the name of its major shareholder viz. M/s Idea Projects Limited in its Balance Sheet for the financial year 2015-16 under the "Details of shareholders holding more than 5%". In addition, non-furnishing of information/data to the Inspecting Officers, certain non-disclosures in its Balance Sheet for the year 2015-16 as required under the Directions and discrepancies in the Returns submitted to NHB, etc., raises concern on general character of the management.
- (ii) Share capital of the Company has been stagnant at ₹10.21 crore for last three years. The borrowings of the Company have been NIL during the last 5 years. In view of its inability to borrow any amount from banks/financial institutions etc., the Company's ability to expand its capital or business does not seem to be feasible in near future.
- (iii) The loans and advances of the Company has been showing declining trend since last three years. Further, profit after tax of the Company has also witnessed decreasing

trend with the Company incurring loss during 2015-16. With no additional capital or borrowings of the Company and this coupled with the decline in loans and advances, the Company's losses are expected to further increase in future.

- (iv) As the website of the Company is not accessible, no information pertaining to on-line services related to its housing finance business like Grievance Redressal Mechanism etc., is available in the public domain.
- (v) Further, the Company did not furnish any information to the Inspecting Team of NHB relating to the letters received from ED on seizure of accounts, balance confirmation certificate as on 31-03-2016 from SBI regarding 12 Fixed Deposit Receipts of the Company which were seized by the ED and correct data on loan asset classification.

2.8 The Company vide its letter dated 27-06-2017 requested NHB for extension of time upto 17-07-2017 for submission of its reply, which as a special case was acceded to by NHB. As the Company's submissions vide its letter dated 14-07-2017 to the Show Cause Notice dated 09-06-2017 were found unsatisfactory, the Company was called for a meeting on 06-09-2017 for discussion on various issues related to the said Show Cause Notice and the supervisory concerns arising out of the observations contained in the NHB's inspection w.r.t its position as on 31-03-2016.

The Company's submissions vide its letter dated 14-09-2017 was also not found satisfactory.

### 3. FINDINGS

3.1 After careful examination of the facts and issues involved, it is observed that the Company is in continuous contraventions / non-compliance of the provisions of the NHB Act and the Directions, Guidelines, Policy Circulars, etc., issued thereunder and other Regulations, including the non-compliance of the conditions subject to which the CoR was issued to the Company. The explanations given by the Company in its replies to the various show-cause notices issued by NHB, do not at all justify the contraventions and non-compliances by the Company and thus found to be not satisfactory as already discussed hereinabove. I find that adequate opportunity had been given to the Company to put forth its views in the matter.

3.2 Having considered the matter in totality, I am of the opinion that this is a fit case for cancellation of the Certificate of Registration of Rose Valley Housing Development Finance Corporation Limited, as the Company has continuously failed to comply with the conditions subject to which the CoR was issued for the following reasons, among others:-

- i. NOF of the Company was ₹ 10.92 crore as against the reported NOF of ₹ 11.01 crore. Further, the share capital of the Company was stagnant for last 3 years, 'Nil' borrowings during last 5 years and there is declining trend in loans & advances and also in profit as it incurred losses during the year 2015-16 ;

- ii. Non-furnishing of various information/ data to the Inspection Team during the course of inspection including letters received from the Enforcement Directorate (ED), balance confirmation receipt, data on loan asset;
- iii. Investment Policy did not cover certain provisions of the Directions issued by NHB;
- iv. Wrong asset classification;
- v. Short-provisioning due to wrong assets classification resulting in overstatement of NOF;
- vi. Non-disclosure of fine/penalty of ₹ 5,000 in the "Notes of Accounts" to its Balance Sheet in the Annual Report for the year 2014-15;
- vii. Non-disclosure of provision in respect of the loans as pointed out in previous inspection, in the balance sheet for the year 2015-16;
- viii. Variation in reporting of CAR (as on 31-03-2016) in different Statement(s)/Return(s);
- ix. Absence of Board Approved Demand/Call Loans Policy;
- x. Non-compliance with certain provisions of Guidelines on KYC and AML Measures, Fair Practice Code, ALM Guidelines, NHB's Policy Circular No. 18 & 22, No. 40 ;
- xi. Non-disclosure of name of the major shareholder of the company having 24.5% of shareholding i.e. M/s Idea Projects limited by the Company in its Balance Sheet under the Details of shareholders holding more than 5%.

3.3 In addition to the above it is also observed that:-

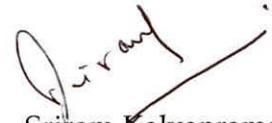
- a) The main shareholders of the Company are M/s Idea Projects Limited (24.50%) and Smt. Shubhra Kundu (20%), whose husband is Shri Gautam Kundu. Shri Gautam Kundu is the Additional Director of M/s Idea Projects Limited and is under trial by the Enforcement Directorate.
- b) SEBI has taken action against the directors of Idea Projects Limited and various companies/directors in Rose Valley Group.
- c) Judgment of the Adjudicating Authority under the Prevention of Money Laundering Act, 2002 in the matter of OC - 392/2014 is against the Company which besides other things has clearly stated that *"the defendants have committed the Scheduled Offences, generated proceeds of crime and laundered them. No doubt the properties attached are proceeds of crime or value thereof and are involved in money laundering....."*.
- d) The Company's Application in connection of a Judgment of the Hon'ble Additional District Judge, Balasore, Case No. 4C of 2015 has been rejected by the said Court, and it is observed that besides other things, the paragraph No. 3 of the said judgement states that *"there are sufficient materials on record to presume that the freed amounts were the amounts collected from public through different sister concern of Rose Valley Group of Companies including the present company Rose Valley Housing Development Finance Corporation Limited."* (Vide pg. No. 3 & 4 of said judgment).

3.4 Therefore, based on the above mentioned facts and observations, it can be said that the Company has failed to fulfill the conditions mentioned in clause (iii), sub-section (6) of Section 29A of the NHB Act; the general character of the management of the housing finance institution is prejudicial to the public interest; and the Company does not have adequate capital structure and earning prospects.

#### 4. DECISION

On perusal of the facts and circumstances mentioned above and careful considerations of the submissions made by the Company, I, in exercise of powers conferred under sub-section (6) of Section 29A of the National Housing Bank Act, 1987, hereby cancel the Certificate of Registration No. 02.0068.08 dated 07-01-2008, granted to Rose Valley Housing Development Finance Corporation Limited, a company having registered office at 5 Mangoe Lane, 1<sup>st</sup> Floor, Room No. 101, Kolkata - 700001.

The Company is advised to surrender the Certificate of Registration to NHB and stop the business of housing finance. This order, however, shall not prevent the Company from recovering its loans/instalment of loans from the borrowers under applicable laws and repayment of liabilities and expenses. This order shall come into force with immediate effect.



Sriram Kalyanraman  
Managing Director & CEO,  
National Housing Bank

Date: 02/01/2018  
Place: New Delhi