



# MOMIN JURIS LAW

**"Tailoring Secretarial and Compliance Services Seamlessly"**

## INTRODUCTION

This memorandum offers a comprehensive legal and factual analysis of the interim order dated April 15, 2025, issued by the Securities and Exchange Board of India ("SEBI") against Gensol Engineering Limited ("Gensol" or "the Company"), its promoter-directors Mr. Anmol Singh Jaggi and Mr. Puneet Singh Jaggi, and several related parties. The order reveals significant violations involving diversion of institutional funds, circular financing schemes, undisclosed related-party transactions, falsified disclosures to stock exchanges, and manipulation of the securities market.

## FACTUAL MATRIX AND DETAILED FINDINGS

### A. Diversion and Misutilization of Institutional Borrowings

Gensol and its subsidiary Gensol EV Lease Pvt. Ltd. availed institutional loans totaling ₹171.30 Crores from IREDA and PFC for acquiring electric vehicles (EVs). SEBI's preliminary investigation discovered that only ₹567.73 Crores worth of EVs (4,704 vehicles) were actually delivered against ₹775 Crores transferred to Go-Auto Pvt. Ltd., indicating a diversion of ₹207.27 Crores.

**Table 1: EV Procurement Fund Trail**

Particulars	Amount (Rs. Crores)	Remarks
Total transferred to Go-Auto	775.00	Claimed as EV purchase payments
Value of EV's Received (4,704 units)	567.73	Actual delivery
Excess transferred (diverted)	207.27	Unjustified and unaccounted difference

This gap is indicative of gross misutilization of funds and lack of due diligence in execution of contract-based procurement.

### B. Role of Wellray Solar Industries as a Conduit

Wellray Solar Industries Pvt. Ltd., a former promoter-controlled entity, was a key beneficiary of funds routed from Gensol. During FY23 and FY24, ₹424.14 Crores were transferred from Gensol to Wellray, of which ₹382.84 Crores were forwarded to promoter entities, public shareholders, and other parties.

Outflows from Wellray (₹ Crores)

Related Parties: 246.07

Sharekhan Ltd. (broker): 40.70

Public Shareholders: 5.17

Others: 90.90

Out of this:

₹25.76 Cr was routed to Mr. Anmol Singh Jaggi

₹13.55 Cr to Mr. Puneet Singh Jaggi

These transactions were concealed from statutory disclosures, violating the SEBI (LODR) Regulations, 2015.

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## C. Preferential Allotment and Circular Financing

On September 26, 2022, Gensol Ventures Pvt. Ltd., a promoter entity, subscribed to 97,445 equity shares for ₹10.09 Crores. The source of this capital was traced back to Gensol itself, routed through Wellray and then to the promoters' personal accounts.

Flow of Funds – Circular Trail

Gensol → ₹10 Cr → Wellray

Wellray → Promoters' accounts (Anmol & Puneet)

Promoters → Gensol Ventures Pvt. Ltd.

Gensol Ventures → Subscribed in Gensol's preferential allotment

This chain violates Section 67 of the Companies Act, 2013, which prohibits financial assistance for purchase of own shares, particularly through layered, indirect transactions.

## D. Manipulative Trading Practices

**SEBI unearthed that Wellray engaged in disproportionate trading in Gensol's shares:**

**Table 2: Trading Pattern by Wellray**

Period	Buy Value (Rs. Cr)	Sell Value (Rs. Cr)	Share of Total Trading Activity
Apr 2022-Dec 2024	160.51	178.44	~99% focused on Gensol Shares

**Chart 2: Funding Source of Wellray Trading (Rs. Cr.)**

Source Entity	Amount
Gensol Engineering Ltd.	40.70
Matrix Gas & Renewable	46.00
Gosolar Ventures	5.65
Anmol & Puneet Jaggi	620
Others	2.80

The use of corporate and promoter-linked funds to drive trades in the company's own stock constitutes a violation under **Regulation 3&4 of SEBI (PFUTP) Regulations 2003**.

## E. Fabricated and Misleading Disclosures

**Gensol made multiple misleading statements:**

- EV Orders: January 28, 2025 disclosure claimed pre-orders for 30,000 EVs, but actual MoUs lacked price/delivery terms.
- Scorpius Trackers Inc. Valuation: A non-operational US subsidiary was valued at ₹350 Cr in sale disclosures.
- Plant Activity: NSE inspection revealed no real manufacturing activity despite market claims.

Such disclosures were materially misleading, violating Regulation 4(2)(f) of PFUTP and Regulations 4 & 48 of LODR Regulations.

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## LEGAL FRAMEWORK AND VIOLATIONS

A. SEBI Act, 1992 – Section 12A Prohibits fraudulent acts including usage of deceptive devices and misstatements in connection with securities markets.

B. SEBI (PFUTP) Regulations, 2003 Reg. 3: Prohibits manipulation through any device/scheme

Reg. 4(1) & (2): Prohibits price manipulation, misrepresentation, and misuse of funds

C. Companies Act, 2013 – Section 67 Bans financial assistance for purchase of own shares, applicable to Gensol's circular transaction structure

D. SEBI (LODR) Regulations, 2015 Reg. 4 & 48: Mandatory disclosure of related party transactions and material events. Gensol violated both.

## SEBI's INTERIM DIRECTIONS

**SEBI invoked Sections 11, 11(4), and 11B of SEBI Act and passed the following orders:**

Directive	Summary
Removal	Promoters Debarred from serving as directors/KMP's
Trading Ban	Promoters and company prohibited from dealing in securities
Stock Split Halted	Suspension of proposed stock split
Forensic Audit	Independent forensic audit ordered; 6-month timeline

In light of the prima facie findings of serious violations involving fund diversion, corporate governance failures, and market manipulation by Gensol Engineering Limited and its promoters, SEBI issued interim directions to safeguard investor interests and maintain market integrity. These directions are temporary but effective immediately and remain in force until further orders.

### Key Interim Directions Issued by SEBI:

#### 1. Restraint on Promoters Holding Management Positions:

SEBI has barred the promoters, specifically Mr. Anmol Singh Jaggi and Mr. Puneet Singh Jaggi, from holding positions as directors or Key Managerial Personnel (KMP) in Gensol. This is to prevent further mismanagement and protect the company from continued promoter dominance that has allegedly facilitated fraudulent activities.

#### 2. Trading Restrictions on Noticees:

The promoters and Gensol itself are restrained from buying, selling, or dealing in securities in any manner, directly or indirectly. This prevents the possibility of further price manipulation or encashment of ill-gotten gains. Existing derivative positions can be closed within a limited time frame to ensure orderly exit without fresh market impact.

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### 3. Suspension of Proposed Corporate Action (Stock Split):

The stock split announced by Gensol has been put on hold. Given the ongoing investigation and governance concerns, allowing this corporate action might mislead retail investors or artificially inflate trading activity, thus SEBI has prudently suspended it.

### 4. Appointment of Forensic Auditor:

SEBI will appoint an independent forensic auditor to conduct a detailed examination of Gensol’s books of accounts and related party transactions. This audit aims to uncover the full extent of fund diversion, misstatements, and related irregularities. The forensic audit report is expected within six months and will form a basis for further regulatory action.

#### **Purpose and Significance:**

These interim directions serve as preventive measures designed to:

- Protect the interests of investors from further harm.
- Ensure no fresh manipulative or fraudulent activities take place during the investigation.
- Preserve the status quo of the company’s securities and management until a detailed inquiry is completed.
- Restore confidence in the market by demonstrating regulatory vigilance and swift action.

These directions do not prejudice the final outcome but are crucial steps within SEBI’s regulatory framework to maintain market discipline and protect public interest while the investigation continues.

## **CORPORATE GOVERNANCE COLLAPSE AT GENSOL ENGINEERING LIMITED: A LEGAL AND ANALYTICAL PERSPECTIVE**

**Table3: Governance Red Flags**

Issue	Consequence
Fund diversion to promoters	Misuse of public funds
Price manipulation	Distorts market fairness
Disclosure lapses	Misleads investors
Circular transactions	Conceals true nature of funding

Corporate governance encompasses the systems, principles, and processes by which a company is directed and controlled to ensure accountability, fairness, and transparency in its relationship with all stakeholders—including shareholders, management, creditors, regulators, and the public. The core purpose of corporate governance is to safeguard the interests of investors and maintain market integrity.

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At Gensol Engineering Limited (“Gensol” or “the Company”), the Securities and Exchange Board of India (SEBI) prima facie found a complete breakdown of corporate governance mechanisms, reflecting severe lapses in fiduciary duties, controls, and transparency. This failure has resulted in significant investor harm, regulatory scrutiny, and loss of confidence in the capital markets.

## 1. Promoter Dominance and Abuse of Power

The promoters, namely Mr. Anmol Singh Jaggi and Mr. Puneet Singh Jaggi, exercised excessive and unchecked control over the Company’s financial resources and strategic decisions. Instead of acting as trustees for the shareholders, they treated Gensol as a proprietary entity for personal benefit. The promoters’ unchecked dominance manifested through:

- **Layered diversion of funds:** Institutional funds raised for electric vehicle acquisitions were routed through multiple related parties and personal accounts, demonstrating a lack of separation between promoter interests and corporate resources.
- **Circumvention of internal checks:** The internal audit and compliance functions failed to identify or halt the misutilization, indicating either gross negligence or complicity.

Legally, such promoter conduct violates the fiduciary obligations imposed under company law and SEBI regulations, which mandate that promoters act in the best interests of the company and its minority shareholders.

## 2. Weaknesses in Internal Controls and Risk Management

Effective corporate governance mandates robust internal controls, including financial controls, risk management frameworks, and audit oversight. At Gensol:

- **Absence of effective control mechanisms** allowed the promoters to divert funds without meaningful checks or reconciliations.
- **Manipulation of accounting entries and ledger adjustments** evidenced an attempt to conceal the true nature and extent of related party transactions.
- **Inadequate monitoring of related party transactions** led to material non-disclosure, in violation of the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations.

This failure undermines investor confidence and contravenes the Companies Act, 2013 provisions relating to audit and accounts, as well as SEBI’s corporate governance framework designed to ensure transparency and accountability.

## 3. Failure of Board Oversight and Independence

The board of directors plays a pivotal role in corporate governance by providing strategic oversight and safeguarding stakeholder interests. The SEBI findings suggest:

- The board either lacked sufficient independence or failed to exercise its oversight functions effectively.
- The presence of promoter directors and possible related interests on the board created a conflict of interest that impaired objective decision-making.

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- Key Managerial Personnel (KMPs) did not act as gatekeepers to prevent fraud and mismanagement.

Legally, this breaches the mandatory requirements for independent directors under the Companies Act and SEBI LODR Regulations, which aim to ensure impartial oversight and prevent dominance by controlling shareholders.

#### 4. Non-Compliance with Disclosure and Transparency Norms

Good corporate governance requires accurate, timely, and comprehensive disclosures to the stock exchanges and investors. Gensol failed in this regard by:

- Submitting **misleading disclosures** about orders, financial transactions, and subsidiary valuations.
- Concealing related party transactions that had a direct bearing on the Company's financial position.
- Providing **forged conduct letters** to SEBI, which constitutes an egregious violation of law, potentially attracting criminal liability under the SEBI Act.

These actions contravene the disclosure obligations enshrined under the SEBI Act, Listing Regulations, and Securities Contracts (Regulation) Act, undermining market integrity.

#### 5. Misuse of Borrowed Funds and Impact on Creditors

Institutional lenders such as IREDA and PFC sanctioned loans for specific business purposes with an expectation of prudent utilization. The misdirection of these funds to related parties and personal accounts represents:

- A breach of loan covenants and fiduciary duty to creditors.
- A potential violation of Sections 420 (cheating) and 406 (breach of trust) of the Indian Penal Code, if funds were knowingly diverted under false pretenses.
- An erosion of lender confidence, jeopardizing the Company's ability to raise future capital.

#### 6. Risk of Investor Harm and Market Instability

The collapse in governance exposed investors to significant risks:

- The diversion and misutilization of funds would likely result in impaired financial performance, write-offs, or liabilities not previously disclosed.
- Artificial price and volume manipulation by related parties, such as Wellray Solar Industries, could have misled retail investors attracted by announcements like stock splits.
- Failure to halt these practices promptly risks further erosion of shareholder wealth and undermines the credibility of the securities market.

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## Legal and Regulatory Implications

The governance failure at Gensol has multiple legal consequences:

- **Section 12A(a), (b), and (c) of the SEBI Act, 1992** proscribe fraudulent and manipulative practices that directly pertain to promoter misdeeds.
- Violations of **SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003** regarding false disclosures, manipulation, and misuse of funds.
- Non-compliance with the Companies Act, 2013 regarding disclosure of related party transactions (Section 188), directors' fiduciary duties (Section 166), and audit requirements.
- Breach of SEBI LODR Regulations mandating transparency in related party transactions and material events.

## CONCLUSION

The interim findings presented by SEBI reveal a deeply embedded scheme of misgovernance, fund siphoning, and misleading of public investors. Gensol's promoters appear to have executed a coordinated plan for personal enrichment at the cost of shareholders and institutional lenders. The regulatory response by SEBI — through restraining orders and forensic examination — is critical to restoring market integrity.

Future regulatory action may include:

- Disgorgement of unlawful gains
- Criminal prosecution under SEBI Act and Companies Act
- Debarment of promoters from capital markets

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