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GENSOL ENGINEERING SCANDAL: UNRAVELLING CORPORATE GOVERNANCE FAILURES IN INDIA

-Tarun Gaba¹

ABSTRACT

The Gensol Engineering Limited (GEL) scandal highlights corporate governance failures in India's emerging market, exposing weak regulatory oversight and internal controls. This paper analyses SEBI's April 15, 2025, order barring GEL founders Anmol Singh Jaggi and Puneet Jaggi from the securities market for fund diversion and governance lapses. GEL, a solar engineering firm, secured Rs 977.75 crore in loans from IREDA and PFC for EV procurement for leasing to Blusmart. Investigations revealed only 4,704 of 6,400 promised EVs were purchased, with Rs 262 crore diverted to promoter-linked entities for personal expenses, including luxury purchases. Forged documents, undisclosed related-party transactions, misleading EV pre-order claims, and stock market manipulation eroded investor trust. The paper evaluates these against the Companies Act, 2013, and SEBI LODR Regulations, 2015, noting violations of Sections 67, 149, and 177, alongside audit committee and independent director failures. Drawing parallels with the Sahara case, it critiques SEBI's reactive enforcement and proposes reforms like stronger whistleblower protections, stricter auditor accountability, and enhanced promoter penalties. The GEL case underscores the need for proactive regulations to address promoter dominance, improve investor literacy, and strengthen internal checks, fostering a robust corporate governance ecosystem in India.

Keywords: Corporate Governance, Fund Diversion, SEBI Regulations, Promoter Misconduct, Audit Failures.

INTRODUCTION

The Indian Corporate Sector has witnessed various cases of failure of corporate governance such as yes bank, DHFL, Jet Airways which is linked to weak governance and regulatory oversight. These failures show how shortcomings in board of directors or regulatory oversight and management shortcomings can lead to failure of a company and erosion of capital of investors. *Gensol Engineering Ltd. (GEL)* is the latest example of corporate governance failure in the

¹ Tarun Gaba, L.L.M student at National Law University, Delhi (2024-2025).

Indian Emerging Market. The SEBI through its order dated April 15,2025 imposed a bar on founder, Anmol Singh Jaggi and Puneet Jaggi from the securities market amid allegation of fund diversion and governance lapses. Below are the facts of the case followed by corporate governance analysis.

Gensol engineering Limited (GEL) based in Ahmedabad, in a solar engineering firm listed on a stock market since 2019. GEL also provides solar consulting, EPC services and electronic vehicle (EV) leasing through its subsidiary Gensol EV Lease Pvt. Ltd. **Blusmart**, an electric ride hailing service is financially linked to GEL through shared promoters and GEL's subsidiary, Gensol EV lease which owns approximately 3000 EV's in Blusmart's fleet.

Gensol engineering Limited (GEL) secured a loan totalling Rs 977.75 crore from IREDA and PFC between FY 2021-22 and FY 2023-24 primarily for procuring 6400 EV's for leasing to Blusmart worth Rs 663.89 crores and for EPC works Rs 313.87 crores. These loans required a 20% promoter equity contribution, implying total deployment of Rs 829.86 crore for EV purchases. The scandal came into light by a complaint being filed to SEBI in June 2024. SEBI investigated and on April 15,2025 issued an interim order revealed the fraudulent activities it detected during the investigation. various events of the case are as follows:

FUNDS DIVERSION FOR PERSONAL USE

- GEL obtained loans of approx. Rs977.75 crores from IREDA & PFC with Rs 663.89 crores allocated for procurement of 6400 Electronic Vehicles for leasing to Blu smart mobility Pvt. Ltd. However, only 4704 EV's were procured for total consideration of Rs 567.73 crores as confirmed by Go-Auto Pvt. Ltd. (Intended EV supplier).
- The Loans required 20% equity contribution from GEL so total deployment of approx. Rs 829 crores (Rs 663+165.97 crores) for E.V procurement. This left an unaccounted amount of Rs 262 crores. Funds were routed through Go-Auto (E.V supplier) & diverted to promoter linked entities like Capbridge Ventures L.L.P, Matrix Gas, Wellray solar.
- The money was used for unrelated purposes including Rs42.94 crores for a luxury apartment in Gurgaon, initially booked by mother of promoter Jasminder Kaur & later allotted to Capbridge Ventures L.L.P.
- Anmol Singh Jaggi used the money for personal expenses such as Rs 26 lakh golf set. Further Rs 1.86 crores were spent for purchasing foreign currency & Rs 6.2 crores were transferred to his mother.

- There was a lot of circular fund movement indicating layered transaction to obscure diversions.

FALSIFICATION OF DOCUMENTS

- GEL submitted forged Conduct letters and No Objection Certificates (NOC) to credit rating agencies falsely claiming that they were regularly servicing their debt to IREDA and PFC. However, these documents were denied by the lenders, confirming multiple defaults. This falsification led to downgrading of rating by credit agencies and eroding trust among lenders and investors.

IMPROPER RELATED PARTY TRANSACTIONS (RPT'S)

- Funds were routed to promoter linked entities like Capbridge Ventures LLP, Matrix Gas and Renewables Ltd, and Wellray Solar Industries Pvt. Ltd. without proper disclosure or approvals. SEBI noted that transactions worth hundreds of crores were not disclosed as RPTs, undermining transparency and shareholder oversight.

MISLEADING DISCLOSURES

- On January 28, 2025, GEL claimed pre-orders for 30,000 EVs, but these were non-binding Memorandum of Understanding (MoUs) without pricing or delivery schedules, misleading investors. A visit by NSE on April 9, 2025, to GEL's EV plant in Pune found no manufacturing activity, with only 2-3 labourers and minimal electricity usage, contradicting claims of operational capacity.

STOCK MARKET MANIPULATION

Wellray a connected entity traded predominantly in GEL's scrip (99% of in trade value), executing buy and sell orders worth Rs 160.51 crores and 178 crores respectively between April 2022 to December 2024. Rs. 101.35 crore of its trading funds came from GEL and related parties, violating Section 67 of the Companies Act, 2013, which restricts companies from funding their own share purchases.

SEBI described a “complete breakdown” of internal controls, with GEL operated as a “proprietary firm” by the promoters. The audit committee and independent directors failed to oversee financial reporting, RPTs, or fund utilization.

CORPORATE GOVERNANCE ANALYSIS

REACTIVE ENFORCEMENT AND NEED FOR WHISTLEBLOWER REFORMS

India's regulatory regime is strict but its enforcement often reactive. The SEBI investigated only after complaint by a whistleblower in 2024 about share manipulation and fund diversion. Promoters have sold their shareholdings to the retail shareholders and during the time order was released they were having around 30% of the Shareholding of the company only. As Legal expert says on Forbes India regulators like SEBI often “kicks in” after fraud is exposed so it can be said that SEBI investor protection is reactive and not protective.² These gaps lead to mismanagement by Gensol to continue unchecked for years. The regulator should reform its whistleblower protections to curb such type of frauds in future by either introducing monetary reforms along with anonymity for informer which may help in early detection of such kinds of misuse by promoters of the company.³

The Sahara case serves as a precedent for SEBI's intervention in cases of fund diversion and misleading disclosures. In Sahara promoters raised billions through optionally fully convertible debentures without proper disclosures, diverting funds for personal gain.⁴ Similarly, Gensol promoter's misled investors with non-binding MOUs for 30,000 EV's and forged NOC to credit rating agencies. The Supreme Court in Sahara case upheld the SEBI's order to protect investors, emphasizing personal liability for promoters. This reinforces the need for stricter penalties in Gensol case to deter unethical promoter behaviour and highlight the reactive nature of SEBI and also necessitating whistleblower reforms.

VIOLATIONS OF SECTION 67 OF COMPANIES ACT

SEBI observed that Gensol and its promoters have funded Wellray for trading in the scrip of Gensol which shows that they have violated section 67 of the Companies Act. These violations can significantly damage Corporate Governance by undermining the shareholders right and create

² Who's Responsible for the Gensol Mess?' *Forbes India* (24 April 2025) <https://www.forbesindia.com/article/take-one-big-story-of-the-day/whos-responsible-for-the-gensol-mess/95842/1> accessed 26 April 2025.

³ Monica Behura, 'SEBI likely to boost Whistleblower Protections, to avert Gensol-like frauds' (ETLegalWorld, 6 May 2025) <https://legal.economictimes.indiatimes.com/news/regulators/sebi-likely-to-boost-whistleblower-protections-to-advert-gensol-like-frauds/120925219> accessed 8 May 2025.

⁴ Asmi Kedare, 'Case Commentary: Sahara India Real Estate Corporation Limited and Others v. Security and Exchange Board of India (Sahara vs SEBI)' (Lawful Legal, 9 March 2024) <https://lawfullegal.in/case-commentary-sahara-india-real-estate-corporation-limited-and-others-v-security-and-exchange-board-of-india-sahara-vs-sebi/> accessed 14 May 2025.

conflict of interests. Such violation also erodes the trust and confidence of the public as it can be seen that the stock of Gensol is down by almost 90 percent after the order of SEBI.

This case is a prominent example of unethical promoters or leaders of Company can turn the company upside down. They used the company as their “personal piggy bank”. SEBI has barred them from doing any capital market transactions and also from holding their position as promoter of the company.⁵ The detection challenges still persist in the market as the corporates and unethical promoters evolve at high pace than the regulators and often, they use circular transactions to make it complex to detect financial assistance or by any way to by-pass the regulations.

AUDIT COMMITTEE FAILURES & REFORMS

As per section 177 of Companies Act, 2013 every listed company and certain other companies as may be prescribed shall constitute an audit committee to oversee financial reporting, internal controls and compliance with regulatory requirements. The committee is responsible for reviewing related party transactions and ensuring integrity of financial statements.

The Audit committee in this case did not function effectively or was in collusion with the company to overlook the irregularities which is a governance failure. In the instant case inadequate scrutiny of related party transaction (RPTs), internal controls, and financial statements should have been flagged by the auditors which could have led to the detection at an early stage of funds diversion but however auditors often succumb to promoter pressure. India should also adopt emerging global approaches and investigate if there is a breach of duty by auditors then strict penalty should be imposed so as to hinder future collisions which could shake the market.

Globally, auditors are increasingly being held accountable for lapses in due diligence related to corporate frauds. In notable case, last year China suspended PWC’s mainland unit for six months and imposed a fine of 62 million over audit failures linked to property giants China Evergrande’s \$ 78 billion fraud.⁶

⁵ Securities and Exchange Board of India, 'Interim Order in the matter of Gensol Engineering Limited' (WTM/AB/CFID/CFID-SEC1/31379/2025-26, 15 April 2025).

⁶ Shivam Tyagi, 'Before the Gensol fall: Experts list governance red flags missed during the firm's meteoric rise' (ETCFO, 22 April 2025) <https://cfo.economictimes.indiatimes.com/news/governance-risk-compliance/before-the-gensol-fall-experts-list-governance-red-flags-missed-during-the-firms-meteoric-rise/120505949> accessed 8 May 2025

NON-DISCLOSURE OF DEFAULTS

GEL did not disclosure about the loan defaults made on payment to the lender and have also given false data/ forged documents to credit rating agencies. Promoters allegedly fabricated No Objection Certificate (NOC) from lenders to remove the credit rating provided by Rating agencies.

The promoters used the diverted funds for personal expenses or benefit which is fundamental violation of corporate governance. Their Act makes them personally liable for fraud and breach of fiduciary duties. Civil liabilities shall also be imposed on promoters.

Personal punishment should be imposed on the promoters so as to signal that individuals cannot hide behind the corporate veil to unjustly enrich himself and misuse the public money for their personal gains. Fines or penalties do not address the issue sufficiently when the promoters or leadership is unethical. The punishment shall be imposed directly on the promoters which should be harsh enough to outweigh the benefit they got by breaking the laws & regulations.

INEFFECTIVENESS OF INDEPENDENT DIRECTORS

Section 149 of the Companies Act, 2013 outlines the role and duties of independent director who are expected to act as custodians for good governance in a company ensuring compliance with the laws and maintaining ethical standards. In the instant case it shows that independent directors Arjun Menon, Harsh Singh and Kuljit Singh Popli stepped down after SEBI order leaving the board with only 2 members.⁷ The resignation implies that independent directors at Gensol failed to exercise due diligence or were ineffective in challenging the promoters' actions. Independent directors are not appointed for a symbolic role they have a place in the company so that they can protect the interest of minority shareholders and for an unbiased oversight which is this case they failed to flag the mismanagement of the company.

SEBI LODR REGULATIONS VIOLATION

As per SEBI order Gensol has violated regulation 4 and 48 of LODR regulation, 2015 which prescribes certain principles governing disclosures and obligations in which the listed entity is required to make disclosures and abide by some obligation such as to ensure audit is conducted by independent, competent and qualified auditor or the entity should refrain from misrepresentation etc. which in this case Gensol has failed to comply with.

⁷ Independent directors exit India's Gensol after co-founders probed' (ETCFO, 18 April 2025) <https://cfo.economictimes.indiatimes.com/news/governance-risk-compliance/independent-directors-exit-indias-gensol-after-co-founders-probed/120408325> accessed 8 May 2025.

Factors that led to corporate governance failures includes dominance of promoters, insufficiently empowered boards, weak internal checks and implementation of regulations for corporates. There is also less financial literacy among retail investors that why many corporates are formed and then hyped with rapid growth then they are listed on the stock market to dump inflated price share on retail investors. To overcome these corporate failure new strict reforms are necessary with proper implementation.

CONCLUSION

The corporate governance failures at Gensol Engineering such as diversion of funds, lack of internal controls, improper related proper transactions, shows a major case of corporate mismanagement or governance lapses. These issues not only violated key provisions of the Companies Act, 2013, and SEBI LODR Regulations, 2015, but also had significant consequences for investors, employees, and customers of both Gensol and BluSmart. The landscape of corporate governance in India has significantly evolved over the past few decades driven by regulatory reforms because of various issues historically. However, challenges still exist because compliances remain inconsistent where promoter dominance often undermine governance quality. The Gensol case is warning that strict changes are necessary with more focus on strict enforcement of the regulation and adaption of laws with time as new corporate entities adopt new strategies to bypass the regulations or laws. The Regulators should be more proactive towards prevention of such a happening which would leave investors in the market or shareholders of the company vulnerable to build a strong and healthy environment.