

No. L-21/142/2017-IT  
Government of India  
Ministry of Consumer Affairs, Food & Public Distribution  
Department of Consumer Affairs  
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Krishi Bhawan, New Delhi - 110001  
Dated the, 14<sup>th</sup> August, 2019

PUBLIC NOTICE

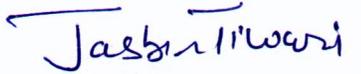
The Registrar of Companies, Karnataka has conducted an inspection under section 206(5) of the Companies Act, 2013 of the books of accounts of M/s Vihaan Direct Selling (India) Private Limited having its registered/head office at Level 07, Mfar Greenheart, Manyata Tech Park, Hebbal, Outer Ring Road, Bangalore - 560045 (Karnataka). The Inspectors appointed have reported various violations under the Companies Act and also have highlighted the fraudulent activities of the company with an intention to dupe the investors. The Inspectors have also pointed out a number of violations under the Consumer Protection Act, 1986 and various clauses of the Direct Selling Guidelines, 2016.

2. The Inspection Report is, therefore, uploaded on the website of Department of Consumer Affairs for information of general public with a view to aware them so as to prevent any possible fraud by the company under the garb of direct selling business/multi-level marketing (MLM).

3. The following investigations/complaints/cases against the above said company are also brought to notice of the general public in order to create awareness among them :-

- (i) A prosecution has been launched against M/s Vihaan Direct Selling (India) Pvt. Ltd. under section 276B & 279(2) of the Income Tax Act, 1961;
- (ii) There are several FIRs registered against the company in the state of Maharashtra, Telangana, Karnataka, West Bengal and NCT of Delhi;
- (iii) W.P.(Criminal) No. 213/2018 in the matter of Financial Fraud Victims Welfare Association (Regd.) Vs. UOI & Ors., W.P.(Criminal) No. 31/2017 in the matter of Vihaan Direct Selling(I) Pvt. Ltd. Vs. UOI & Ors and W.P.(Criminal) No. 17/2019 in the matter of Vihaan Direct Selling(I) Pvt. Ltd. Vs. UOI & Ors in respect of the company are *sub-judice* before the Hon'ble Supreme Court of India.

Encl :- As above.

  
(Jasbir Tiwari)  
Under Secretary to the Govt. of India

PART 'D'

MATTERS FALLING UNDER THE JURISDICTION OF OTHER MINISTRIES / DEPARTMENTS.

During the course of Inspection it is found that the above said company is running a multi-level marketing or product based pyramid scheme business. This is a new version of pyramid scheme in which the consumers are turned into distributors and the promoters are able to sell far more products by selling to distributors than they would be selling direct to the consumers. The philosophy goes that it is easier to buy than to sell. If a person can be convinced that he will make money by buying products to qualify for commissions from sales by those he has recruited, the sale is an easy one. The products in these schemes have become merely a means of disguising or laundering investments in the pyramid schemes while the dynamics of the chain promotion system are essentially same. In fact, money from sales must go through the company's infrastructure and only a portion of payout is rebated to participants. But most of it goes to top level Independent Representatives (IRs) and rest of the amount is spread amongst tens of thousands of participants, most of whom loss money.

In this business model contain endless chain of recruitment of IRs as primary customers, they are basically recruitment driven, they payment distribution is top weighted, lack of retail or direct sales for consumption etc and prove in itself that they are legitimate business and only cater to the needs of only those at the top level. The company is using greater amount of deception for recruitment and selling of the products at exorbitant prices. Thus the Inspecting Officers are of opinion that this Company and its Directors should also have been examined under section 420 and 120B of Indian Penal Code and various provisions of The Prize, Chits and Money Circulation ( Banning) Act,1978 by the concerned Agency/ department at their end.

In addition, the Company has also grossly violated the provisions of the Consumer Protection Act, 1986 and Direct Selling Guidelines, 2016 and Collected huge amount from

738

gullible public promising high returns. Hence, the following observations noted may be referred to the Department of Consumer Affairs for further action at their end.

**1. Violation of provisions of Section 2(1)(c)(i) of the Consumer Protection Act, 1986 :**

The inspection revealed that the company has been selling the same Product on the same date at different prices to different buyers (IRs). The following are some of the observations from the Sales invoices submitted by the company to the Inspecting Officers which clearly establishes that an Unfair Trade practice has been adopted by the Company. Hence it seems that the Company violated the provisions of Section 2(1)(c)(i) of Consumer Protection Act, 1986.

Sl No.	Product details	Buyer Name (IR)	Invoice No. & Date	Sale price of one unit by the Company (Exclusive of GST & Shipping Charges) Rs.	Difference of amount of Rs.
1	CHAIROS Amore Couple Watch	Himansu Mahaling	VHN/BLR/18/52256, dated 21.08.2018	83,517/-	5,000/-
		Arun Sriram	VHN/BLR/18/52254, dated 21.08.2018	88,517/-	
2	CHAIROS Crusader LS Watch	Nishant Tyagi	VHN/BLR/18/52219, dated 21.08.2018	79,601/-	3,365/-
		Aman Mehdiyal	VHN/BLR/18/52220, dated 21.08.2018	82,966/-	
3	Sharp QNET Zenstional Air Purifier	Tarun Kumar	VHN/BLR/18/52267, dated 21.08.2018	72,881/-	1,865/-
		Deepak Assudani	VHN/BLR/18/52268, dated 21.08.2018	74,746/-	
4	KENT QNET Smart Alkaline Mineral RO Water Purifier	Gowri Shankar Allam	VHN/BLR/18/52280, dated 21.08.2018	28,919/-	1,508/-
		Parin Kumar Solanki	VHN/BLR/18/52281, dated 21.08.2018	30,427/-	
5	Exagon Watch-Leather Strap	Lakshmn Kumar Chittimilla	VHN/BLR/18/52250, dated 21.08.2018	49,308/-	1138/-
		Murugan M	VHN/BLR/18/52261, dated 21.08.2018	50,446/-	

2. Violation of provisions of Section 2(1)(c)(iv)(d) of the Consumer Protection Act, 1986

As per the Company's "Sales Incentive Plan" issued to all IRs upon their joining, the page no.5 of the plan illustrates that the Retail Profit Margin(RPM) is the difference between the Independent Representatives(IRs) price and Maximum Retail Price(MRP) of the product and shown an illustration of 20% profit margin with MRP INR100 and IRs price is INR80. But from the Sales Invoices and MRP of different products furnished by the Company to the IOs reveals that the company is selling the products to its IRs at MRP only without any profit margin to IRs as agreed by the Company. Therefore, the Company (trader) has charged for the goods a price in excess of the price agreed between the parties. Hence it seems that the Company has violated Section 2(1) (c) (iv)(d) of Consumer Protection Act, 1986.

3. Violation of provisions of Section 2(1)(c)(i) of the Consumer Protection Act, 1986 :

As per the Purchase and Sales invoices submitted by the Company, it is found that the Company is purchasing the products at nominal prices and selling the same products without any value addition at exorbitant prices. The following table compares the purchase and sale prices of some products and the percentage of profit gained by the Company. Huge profit margin against the normal business transactions clearly establishes that an Unfair Trade practice has been adopted by the Company. Hence, it seems that the Company violated the provisions of Section 2(1)(c)(i) of Consumer Protection Act, 1986.

Sl No.	Product details	Purchase price of single unit by the company (inclusive of all taxes) Rs.	Sale price of Single unit by the company (inclusive of all taxes) Rs.	Percentage of profit
1	CHAIROS The Racer Watch-Black	10,856/-	56,049/-	416%
2	Exagon Watch-Leather Strap	12,272/-	61,933/-	404%
3	CHAIROS Crusader LS Watch	23,010/-	98,649/-	328%
4	CHAIROS Amore Couple Watch	27,004/-	1,05,200/-	290%
5	Sharp QNET Zenstional Air Purifier	31,057/-	94,200/-	203%
6	KENT QNET Smart Alkaline	14,134/-	37,900/-	168%

740

	Mineral RO Water Purifier			
7	Nutriplus Busy Bee Honey - Indian Laurel	191/-	497/-	160%
8	Nutriplus Celestial Tea - Revive	358/-	1,210/-	238%
9	CHAIROS Lattitude LS	25,016/-	82,778/-	231%
10	CHAIROS Lattitude SS	26,078/-	84,111/-	222%

**4. Violation of provisions of Section 2(1)(6) of the Consumer Protection Act, 1986**

There are huge number of Complaints against the Company were received at PMO PG Portal, MCA, ROC (Bangalore) and RD/SER. The main allegation of various complainants like Vaishnavi K, Neha Varma, Sachin Dattaram Manjrekar and others is that the Company without giving the actual details of functioning of the Company forced them to invest their hard earned money. The Company and its Independent Representatives (IRs) mislead the Consumers deliberately to invest in the Company in the pretext of high returns within a short period. And the company neither delivered the products nor refund the money.

As per the Balance Sheet as at 31.03.2017, as per Note 19, the total cost of Purchase of products for resale is only Rs.47,26,07,134/- whereas as per Note 18, the company has paid an amount of Rs.304,12,51,778/- as Commission, which is highly disproportionate to normal business transaction. It clearly shows that the products sold by the Company are immaterial and the Company is running illegal product based pyramid scheme and offering huge commission to its IRs. Therefore it seems that the Company is in the business of offering spurious goods for sale and adopts deceptive practices in the provision of services. Hence, it seems that the violation of provisions of Section 2(1) (6) Consumer Protection Act, 1986.

**5. Violation of provisions of Section 2(1)(r)(1)(i) and Section 2(1)(r)(1)(ii) of the Consumer Protection Act, 1986**

As per the Section 2(1)(r) of the Consumer Protection Act, 1986, "Unfair trade practice" means a trade practice which, for the purpose of promoting the sale, use or supply of any goods or for the provision of any service, adopts any unfair method or unfair or deceptive practice including any of the following practices, namely;—

- (1) The practice of making any statement, whether orally or in writing or by visible representation which,—

- (i) Falsely represents that the goods are of a particular standard, quality, quantity, grade, composition, style or model;
- (ii) falsely represents that the services are of a particular standard, quality or grade,"

As per the Balance Sheets as at 31.03.2017, 31.03.2016 & 31.03.2015 the following observations made by the Inspecting Officers.

**As per the Balance sheet as at 31.03.2017**

Physical Products

Purchase value of physical products =	47.26 Crores
Sale value of physical products =	165.73 Crores
Profit & % of profit on sale of physical products=	118.47 Cr & 251%

Virtual Products/Services

Cost of materials/services consumed =	68.78 Crores
Sale of Virtual products =	258.53 Crores
Profit & % of profit on sale of virtual products=	189.75 Cr & 276%

Commission details

Total Revenue from Operations =	424.98 Crores
Commission Paid =	304.12 Crores
Commission as percentage of Total Revenue =	71.56%

**As per the Balance sheet as at 31.03.2016**

Physical Products

Purchase value of physical products =	65.22 Crores
Sale value of physical products =	196.26 Crores
Profit & % of profit on sale of physical products =	131 Cr & 200%

Virtual Products/Services

Cost of materials/services consumed =	115.17 Crores
Sale of Virtual products =	372.21 Crores
Profit & % of profit on sale of virtual products =	257.04 Cr & 223%

Commission details

Total Revenue from Operations =	569.21 Crores
Commission Paid =	369.78 Crores
Commission as percentage of Total Revenue =	65%

742

As per the Balance sheet as at 31.03.2015

Physical Products

Purchase value of physical products =	32.81 Crores
Sale value of physical products =	105.29 Crores
Profit & % of profit on sale of physical products =	72.48 Cr & 221%

Virtual Products/Services

Cost of materials/services consumed =	68.73 Crores
Sale of Virtual products =	217.08 Crores
Profit & % of profit on sale of virtual products =	148.35 Cr & 216%

Commission details

Total Revenue from Operations =	322.73 Crores
Commission Paid =	196.74 Crores
Commission as percentage of Total Revenue =	61%

The above data reveals that the Company was able to gain huge percentage of profit on sale of physical products and virtual products and in turn paying a very high commission to its IRs. The inspection reveals that the company was able to gain unreasonable profit margin and paying huge commission to its IRs by falsely representing that the Products/goods and Services offered by the company are of a particular standard, quality, grade, composition, style or model. Hence, it seems that the Company has violated the provisions of Section 2(1) (r) (1) (i) and Section 2(1) (r) (1) (ii) of the Consumer Protection Act, 1986.

**6. Violation of provisions of Section 2(1)(oo) of Consumer Protection Act, 1986 :**

The Company while selling products to the IRs assures that the products are unique and of superior quality, hence selling at higher prices. But the inspection reveals that the company procuring all the products at nominal prices and without any value addition selling the same products at extortionate prices. The Inspection also reveals that most of the goods sold by the Company are Spurious goods, which are claimed to be genuine but they are actually not so. Hence, it seems that the Company violated the provisions of Section 2(1) (oo) of Consumer Protection Act, 1986.

**7. Violation of Clause 1 (13) (C) of Direct Selling Guidelines, 2016:**

As per the Clause 1 (13) (C) of Direct Selling Guidelines, 2016, "Every Direct Selling entity, shall clearly disclose the method of calculation of remuneration".

But, on inspection of the 'Sales Incentive Plan' given to the IRs of the company, it is found that the company has failed to clearly disclose the method of calculation of remuneration to its IRs before their joining. Hence, it seems that the Company has violated the provisions of Clause 1 (13) (C) of Direct Selling Guidelines, 2016.

**8. Violation of Clause 2 (3) of Direct Selling Guidelines, 2016:**

As per the Clause 2 (3) of Direct Selling Guidelines, 2016, "Every Direct Selling entity, shall provide accurate and complete information to prospective and existing direct sellers concerning the reasonable amount of remuneration opportunity, and related rights and obligations"

The inspection reveals that the company has failed to provide accurate and complete information to prospective and existing direct sellers concerning the reasonable amount of remuneration opportunity, and related rights and obligations. Hence, it seems that the company has violated the provisions of Clause 2 (3) of Direct Selling Guidelines, 2016.

**9. Violation of Clause 2 (5) of Direct Selling Guidelines, 2016:**

As per the Clause 2 (5) of Direct Selling Guidelines, 2016, "Every Direct Selling entity, shall notify and provide a full refund of buyback guarantee to every direct seller on reasonable commercial terms which can be exercised within period of 30 days from the date of the distribution of the goods or services to the direct sellers"

The inspection reveals that the company has failed to notify and provide a full refund of buyback guarantee to every direct seller on reasonable commercial terms which can be exercised within period of 30 days from the date of the distribution of the goods or services to the direct sellers. Hence, it seems that the company has violated the provisions of Clause 2 (5) of Direct Selling Guidelines, 2016.

**10. Violation of Clause 3(1) of Direct Selling Guidelines, 2016:**

As per the Clause 3(1) of Direct Selling Guidelines, 2016, "Every Direct Selling entity shall be the owner, holder, license of a trade mark, service mark or any other identification mark which identifies the entity with the goods to be sold or supplied or services to be rendered".

744

The inspection reveals that the company has violated this provision as the trade mark of QNET registered with Transview Enterprises India Pvt Ltd instead of Vihaan Direct Selling India Pvt Ltd. Hence, it seems that the Company violated the provisions of Clause 3(1) of Direct Selling Guidelines, 2016.

**11. Violation of Clause 3(2) of Direct Selling Guidelines, 2016:**

As per the Clause 3(2) of Direct Selling Guidelines, 2016, "Every direct selling entity shall issue proper identity documents to its direct sellers".

The inspection reveals that no such identity documents have been provided by the company to any of its direct sellers. Hence, it seems that the company has violated the provisions of Clause 3 (2) of Direct Selling Guidelines, 2016.

**12. Violation of Clause 3(3)(a) of Direct Selling Guidelines, 2016:**

As per the Clause 3(3) (a) of Direct Selling Guidelines, 2016, "Every direct selling entity shall maintain a "Register of Direct Sellers" wherein relevant details of each enrolled direct seller shall be updated and maintained".

The inspection reveals that the company has failed to maintain a "Register of Direct Sellers" wherein relevant details of each enrolled direct seller shall be updated and maintained. Hence, it seems that the company has violated the provisions of the Clause 3(3) (a) of Direct Selling Guidelines, 2016.

**13. Violation of Clause 3(3)(b) of Direct Selling Guidelines, 2016:**

As per the Clause 3(3) (b) of Direct Selling Guidelines, 2016, "Every direct selling entity shall maintain the data base of details of direct sellers".

The inspection revealed that the company has failed to maintain the data base of details of direct sellers as per the Clause 3(3) (b) of Direct Selling Guidelines, 2016. Hence, it seems that the company has violated the provisions of the Clause 3(3) (b) of Direct Selling Guidelines, 2016.

**14. Violation of Clause 3(4) of Direct Selling Guidelines, 2016:**

As per the Clause 3(4) of Direct Selling Guidelines, 2016, "Every Direct Selling Entity shall maintain proper and updated website with all relevant details of the entity, contact information, its management, products, product information, product quality certificate, price, complete income plan, terms of contract with direct seller and complaint redressal mechanism for direct sellers and consumers.

745

The website should have space for registering consumer complaints and should ensure that grievances are addressed within 45 days of making such complaints"

The inspection revealed that the company has failed to maintain proper and updated website with all relevant details of the entity, contact information its management, product information, product quality certificate, terms of contract with direct sellers and complaint redressed mechanism for direct sellers and consumers. Hence, it seems that the company violated the Clause 3(4) of Direct Selling Guidelines, 2016.

**15. Violation of Clause 3(5) of Direct Selling Guidelines, 2016:**

As per the Clause 3(5) of Direct Selling Guidelines, 2016, "Every Direct Selling Entity shall provide to all direct sellers their periodic account / information concerning, as applicable, sales, purchases, details of earnings, commissions, bonus and other relevant data, in accordance with agreement with the direct sellers. All financial dues shall be paid and any withholding made in a commercially reasonable manner"

The inspection revealed that the company has failed to provide to all direct sellers their periodic account / information concerning, as applicable, sale, purchases, details of earnings, commissions, bonus and other relevant data , in accordance with the agreement with the direct sellers. Hence, it seems that the company violated the Clause 3(5) of Direct Selling Guidelines, 2016.

**16. Violation of Clause 3(7) of Direct Selling Guidelines, 2016:**

As per the Clause 3(7) of Direct Selling Guidelines, 2016, "A Direct Selling entity shall Not:

- a) Use misleading, deceptive or unfair recruiting practices, including misrepresentation of actual or potential sales or earnings, in their interaction with prospective or existing direct sellers;
- b) Make any factual representation to a prospective direct seller that cannot be verified or make any promise that cannot be fulfilled;
- c) Present any advantages of direct selling to any prospective direct seller in a false or deceptive manner;
- d) Make or cause, or permit to be made, any representation relating to its direct selling business, including remuneration system and agreement between itself and the direct seller, or to the goods or services being sold by itself or by the direct seller which is false or misleading;

796

e) Engage in, or cause or permit, any conduct that is misleading or likely to mislead with regard to any material particulars relating to its direct selling business, including remuneration system and agreement between itself and the direct seller, or to the goods or services being sold by itself or by the direct seller;

f) Use, or cause or permit to be used, fraud, coercion, harassment, or unconscionable or unlawful means in promoting its direct selling practice, including remuneration system and agreement between itself and the direct seller, or to the goods or services being sold by itself or by the direct seller”.

The inspection revealed that the company and its IRs have used misleading, deceptive and unfair recruiting practices, including misrepresentation of actual or potential sales or earnings, in their interaction with the prospective or existing direct sellers. Hence, it seems that the company violated the Clause 3(7) (a) of Direct Selling Guidelines, 2016.

The company has also violated Clause 3(7) (b), 3(7)(c), 3(7)(d), 3(7)(e) and 3(7)(f) of Direct Selling Guidelines, 2016.

**17. Violation of Clause 4(1)(a) of Direct Selling Guidelines, 2016:**

As per the Clause 4(1) (a) of Direct Selling Guidelines, 2016, “Every Direct Selling entity shall execute a contract agreement, whether directly or indirectly, with Direct Sellers before enrolment and the Agreement shall be provided in a manner consistent with Section 10 of the Indian Contract Act, 1872;”.

It seems that the company has failed to execute a contract agreement, whether directly or indirectly, with direct sellers before enrolment in manner consistent with Section 10 of the Indian Contract Act, 1872.

**18. Violation of Clause 7(3) of Direct Selling Guidelines, 2016:**

As per the Clause 7(3) of Direct Selling Guidelines, 2016, “All complaints received over phone, email, website, post and walk-in should have a complaint number for tracing and tracking the complaint and record time taken for redressal”.

It seems that the company has failed to maintain a proper record of complaints received over phone, e-mail, website, by post and walk-in and to issue a complaint number for each complaint received for tracing and tracking the complaint.

**19. Violation of Clause 7(5) (b) of Direct Selling Guidelines, 2016:**

As per the Clause 7(5) (b) of Direct Selling Guidelines, 2016, "The direct selling entity shall provide information to the consumer upon purchase which shall contain the delivery date of goods or services".

The inspection reveals that the company has failed to provide information to the consumer upon purchase about the delivery date of goods and services. Hence, it seems that the company violated the Clause 7(5) (b) of Direct Selling Guidelines, 2016.

**20. Violation of Clause 7(5) (c) of Direct Selling Guidelines, 2016:**

As per the Clause 7(5) (c) of Direct Selling Guidelines, 2016 "The direct selling entity shall provide information to the consumer upon purchase which shall contain procedures for returning the goods".

The inspection revealed that the company has failed to provide information to the consumer upon purchase about the procedures for the returning the goods. Hence, it seems that the company violated the Clause 7(5)(c) of Direct Selling Guidelines, 2016.

**21. Violation of Clause 7(5) (d) of Direct Selling Guidelines, 2016:**

As per the Clause 7(5) (d) of Direct Selling Guidelines, 2016, "The direct selling entity shall provide information to the consumer upon purchase which shall contain warranty of the goods and exchange / replacement of goods in case of defect"

The inspection reveals that the company has failed to provide information to the consumer upon purchase about the warrantee of the goods and exchange / replacement of the goods in case of defect. Hence, it seems that the company violated the Clause 7(5)(d) of Direct Selling Guidelines, 2016.

**22. Violation of Clause 8(1) of Direct Selling Guidelines, 2016:**

As per the Clause 8 (Prohibition of Pyramid Scheme & Money Circulation Scheme) of Direct Selling Guidelines, 2016 "No person or entity shall promote a Pyramid Scheme as defined in Clause 1(11) or enrolled any such scheme or participate in such arrangement in any manner whatsoever in the grab of doing direct selling business". But, the inspection reveals that the company has violated above provision. Hence, it seems that the Violation of Clause 8(1) of Direct Selling Guidelines, 2016.

748

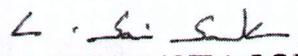
**23. Violation of Clause 8(2) of Direct Selling Guidelines, 2016:**

As per the Clause 8 (Prohibition of Pyramid Scheme & Money Circulation Scheme) of Direct Selling Guidelines, 2016 "No person or entity will participate in money circulation Scheme as defined in Clause 1(12) in the grab of direct selling of business opportunities".

But, the inspection reveals that the company has violated above provisions. Hence, it seems that the Violation of provisions of Clause 8(2) of Direct Selling Guidelines, 2016.

Hyderabad:  
Dated:25.01.2019.

  
1) MANOJ KUMAR BAGRI, I.C.L.S.  
JOINT DIRECTOR &  
INSPECTING OFFICER

  
2) SAI SANKAR LANDA, I.C.L.S.  
ASST. REGISTRAR OF COMPANIES,  
VIJAYAWADA &  
INSPECTING OFFICER