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ZEE–SEBI CASE: A CORPORATE GOVERNANCE AND REGULATORY FAILURE LENS

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Introduction

The Securities and Exchange Board of India (SEBI) has, over the years, positioned itself as a vigilant regulator committed to ensuring fair disclosure, transparency, and accountability in Indian capital markets. However, its actions—or inactions—have often been called into question in the face of large-scale corporate mis-governance. Among these, the recent developments involving Zee Entertainment Enterprises Limited (ZEEL) and its promoters have brought to the fore serious lapses in both corporate governance and regulatory oversight. This commentary examines the Zee–SEBI controversy, identifies governance failures within the company, evaluates SEBI’s regulatory approach, and draws lessons for corporate India from this unfolding crisis.

I. Background: The Zee–SEBI Controversy

In June 2023, SEBI issued an interim order barring Subhash Chandra and Punit Goenka—the founder and CEO respectively of Zee Entertainment—from holding directorial or key managerial roles in any listed company. The crux of SEBI’s allegation was that Chandra and Goenka had abused their positions to siphon off public funds for personal gains and to service debt obligations of associate entities, thereby violating disclosure norms under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations).

According to SEBI, this diversion of funds occurred through layered transactions involving related-party entities—specifically through Yes Bank accounts and Essel Group companies. The cumulative picture portrayed by SEBI’s order was one of deeply entrenched promoter control, opacity, and violation of fiduciary responsibilities.

The order had ripple effects—not only did ZEEL’s stock price fall sharply, but its proposed merger with Sony India also came under scrutiny, with concerns being raised about the fitness of directors and systemic internal control failures.

II. Corporate Governance Lapses at Zee

Several red flags had been visible at ZEEL and the broader Essel Group long before SEBI’s June 2023 action.

1. *Concentration of Promoter Control:* Despite ZEEL being a professionally listed company, it operated like a promoter-controlled entity. Subhash Chandra and his family members, through a web of holding companies, maintained

disproportionate influence over board decisions, related-party transactions, and financial management.

2. *Opaque Financial Dealings:* The financial statements of ZEEL and its group companies raised questions regarding inter-corporate loans, advances, and asset transfers. Multiple rating agencies, including ICRA and CARE, had issued warnings about governance issues, although they did not downgrade the ratings promptly.
3. *Audit Committee Ineffectiveness:* The failure of ZEEL's audit committee to detect or question fund movements, particularly those routed through related parties, highlights significant weaknesses in internal control systems and board independence.
4. *Delayed Disclosures:* ZEEL failed to disclose material related-party transactions in a timely manner, breaching its obligations under LODR norms. In some instances, disclosures were made only after regulatory intervention or public scrutiny.

III. SEBI's Regulatory Response: Timely or Too Late?

While SEBI's interim order in June 2023 was bold and signaled a stricter stance on promoter misconduct, it also raises uncomfortable questions about regulatory timing.

1. *Delayed Action:* Red flags regarding Essel Group's financial engineering had been present since at least 2019, when ZEEL's shares were pledged to mutual funds to cover debt. Despite this, SEBI's strong intervention came only in 2023—suggesting a reactive rather than proactive regulatory posture.
2. *Reliance on Whistleblower Inputs:* Much of SEBI's investigation seems to have been triggered by whistleblower complaints and media reporting. This over-reliance exposes the gaps in SEBI's market surveillance mechanisms.
3. *Interim Order vs Finality:* The legal basis of SEBI's interim order, though grounded in protecting investor interest under Section 11 of the SEBI Act, remains vulnerable to challenge unless followed up by a speedy final adjudication. This is particularly important because Punit Goenka has contested the allegations before SAT and the Supreme Court.
4. *Parallel Judicial Proceedings:* The case is now under review by the Securities Appellate Tribunal (SAT), where Zee has obtained partial relief. However, the matter remains sub judice, raising uncertainty about regulatory finality and executive overreach.

IV. Systemic Implications: Who Guards the Boardroom?

The Zee–SEBI controversy is not an isolated incident—it reflects deeper systemic gaps in India’s corporate governance ecosystem.

1. *Weak Board Independence:* The repeated failures of independent directors to raise concerns or block problematic transactions show that independence is often nominal. Most directors are either beholden to promoters or disengaged from active governance.
2. *Audit Failures:* Statutory auditors and internal auditors play a critical role in flagging risks. Yet, in ZEEL’s case, auditors either missed or failed to act on visible financial anomalies. This aligns with similar failures seen in IL&FS, DHFL, and CG Power.
3. *Rating Agency Complacency:* Credit rating agencies did not act decisively on early signs of governance breakdown. Their passive role again raises the question: who guards the guardians?
4. *Need for Regulatory Integration:* While SEBI operates under the securities framework, the actions of company directors also fall under the Companies Act, 2013. There is limited coordination between SEBI, MCA, RBI, and SFIO. This regulatory fragmentation enables promoters to exploit loopholes.

V. LESSONS AND THE WAY FORWARD

The ZEEL case must act as a turning point—not just for SEBI, but for India’s corporate governance culture at large.

1. *Reforming LODR and Board Accountability:* There is a pressing need to amend LODR Regulations to define fiduciary duties of directors more explicitly. SEBI has already proposed changes to enhance disclosure requirements, but enforcement remains the key.
2. *Strengthening Whistleblower Mechanisms:* SEBI should institutionalize secure, incentivized whistleblower mechanisms to detect misconduct early, rather than depend on external media exposés.
3. *Time-bound Regulatory Action:* Interim orders, while useful, must be backed by quick hearings and final adjudication to avoid regulatory uncertainty. Delays reduce deterrence.
4. *Board & Audit Reform:* India needs structural reforms to ensure audit independence, board transparency, and real-time oversight. Regulator-led capacity building for independent directors can help.

5. *Judicial Deference or Overreach?*: Courts must strike a balance between protecting individual rights and enabling regulators to act swiftly in investor interest. The SAT's ongoing role in this case will define this balance.

Conclusion

The Zee–SEBI saga is emblematic of the fragile architecture of corporate governance in India. While SEBI's intervention sends a strong message, its timing and underlying systemic failures suggest that much work remains to be done. Unless regulatory action is proactive, multi-agency coordinated, and supported by empowered boards and auditors, such crises will recur. For India to mature as a capital market, the governance ecosystem must evolve from promoter-driven opacity to institutional integrity.