

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. EAD-9/SM/ 21-25 /2019-20]**

UNDER SECTION 15-I OF SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992, READ WITH RULE 5 OF SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES BY ADJUDICATING OFFICER) RULES, 1995.

In respect of:

Palem Srikanth Reddy (PAN NO. AAMPP9497N)	Palem Srikanth Reddy [on behalf of Sanhitha Reddy (minor)] (PAN NO. AAMPP9497N)	Stuthi Reddy (PAN NO.BVCPR0035E)
P. Soujanya Reddy (PAN NO. AAQPP2729R)	Dakshayani Reddy (PAN NO. ADVPD0196L)	

In the matter of M/s Palred Technologies Ltd

1. Securities and Exchange Board of India (hereinafter referred to as “SEBI”) received draft letter of offer filed by Merchant Banker-M/s Mark Corporate Advisors Pvt Ltd on behalf of Mr. Palem Srikanth Reddy (Acquirer) along with Ms. Stuthi Reddy (Persons Acting in Concert) to acquire 26% of equity shares of Palred Technologies Ltd (“Target Company”), The target company is listed at Bombay Stock Exchange and National Stock Exchange (hereinafter referred to as “Stock Exchange”). SEBI observed certain post offer non compliances with certain provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (hereinafter referred to as “SAST Regulations”) and SEBI (Prohibition of Insider Trading) Regulations, 1992 (hereinafter referred to as “PIT Regulations”) within stipulated time and there was delay in making applicable disclosures. Thus, it was alleged that entities violated the following provisions:
 - i. Regulation 29(2) read with Regulation 29(3) of SAST Regulations by Mr. Palem Srikanth Reddy (hereinafter referred to as “Noticee No. 1”), Mr. Palem Srikanth Reddy (on behalf of Ms. Sanhitha Reddy (Minor) (hereinafter referred to as Noticee No. 2”), Ms. Stuthi Reddy (hereinafter referred to as Noticee No. 3), Ms. P. Soujanya Reddy (hereinafter referred to as “Noticee No. 4”) and Ms. Dakshayani Reddy (hereinafter referred to as “Noticee No. 5”);
 - ii. Regulation 13(3), 13(4) and 13(4A) read with Regulation 13(5) of PIT Regulations by Noticee No. 1;
 - iii. Regulation 13(1), and 13(4A) read with Regulation 13(5) of PIT Regulations by Noticee(s) No. 2 and 3;

- iv. Regulation 10(5), Regulation 10(6), Regulation 10(7) of SAST Regulations by Noticee(s) No. 2, 3, 4 and 5.
2. In this order wherever PIT 1992 is mentioned it should be referred to as PIT 1992 read with Regulation 12 of PIT 2015.
3. The above Noticee will be collectively called as "Noticees".

Appointment of Adjudicating Officer

4. The undersigned has been appointed as Adjudicating Officer vide order dated April 16, 2018, under Section 19 of the SEBI Act read Section 15-I of SEBI Act" read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as "AO Rules") to inquire and adjudge under Section 15A(b) of SEBI Act on Noticees for the alleged violation.

Show Cause Notice, Reply and Personal Hearing:

5. Based on the findings by SEBI, Show Cause Notice no. SEBI/EAD-9/SM/EE/32818/ 2018 dated November 30, 2018 (hereinafter referred to as 'SCN') was served on Noticees in terms of Rule 4 of AO Rules read with Section 15 (I) of SEBI Act, calling upon the Noticees to show cause as to why an inquiry should not be held against them and penalty should be not imposed under Section 15A(b) of SEBI Act, 1992 on Noticees for the alleged provisions of law. The SCN issued was duly received by the Noticees.

Allegations in the SCN:

6. Post-offer non-compliances

- 6.1. It was alleged that there were delay in disclosures under SAST Regulations and PIT Regulations by the Noticees. Details of the same are as mentioned below:

Non-Disclosure under SAST Regulation:

Name of the Noticees	Date of Acquisition/Sale	Shareholding		Applicable Regulation	Due date for compliance	Actual date of compliance	Delay (in no. of days)
		Before	After				
Palem Srikanth Reddy	November 20, 2014	89,20,307 (22.85%)	1,79,01,508 (45.86%)	Rev. 29(2) read with Reg.	November 24, 2014	May 19, 2015	176
Palem Srikanth Reddy	November 22, 2014	1,79,01,508 (45.86%)	79,01,508 (20.24%)	29(3) of SAST Regulation	November 25, 2014	May 19, 2015	175
Stuthi Reddy	November 22, 2014			Reg. 29(2) read with Reg. 29(3),	November 25, 2014	May 19, 2015	175
Sanhitha Reddy (Minor)		4,15,796 (1.07%)	1,04,15,796 (26.69%)	Of SAST Regulation and Reg.	November 18, 2014		

				10(5), Reg. 10(6) of SAST Regulation			
P Soujanya Reddy					November 27, 2014		
Dakshayani Reddy					December 22, 2014		

6.2. In view of the above, it was alleged following :

6.2.1. Noticee(s) No. 1 have violated Regulation 29(2) read with Regulation 29(3) of SAST Regulations; and

6.2.2. Noticee(s) No. 2, 3, 4 and 5 have violated Regulation 29(2) read with Regulation 29(3), Regulation 10(5), Regulation 10(6), Regulation 10(7) of SAST Regulations..

Non-Disclosure under PIT Regulation:

Name of the Person/ entity	Date of Acquisition/Sale	Shareholding		Applicable Regulation	Due date for compliance	Actual date of compliance	Delay (in no. of days)
		Before	After				
Palem Srikanth Reddy	November 22, 2014	1,79,01,508 (45.86%)	79,01,508 (20.24%)	Reg. 13(3), 13(4) and 13(4A) read with 13(5) of PIT Regulations	November 25, 2014	May 19, 2015	175
Stuthi Reddy	November 22, 2014	Nil	50,00,000 (12.81%)	Reg. 13(1) and 13(4A) read with 13(5) of PIT Regulations	November 25, 2014	May 19, 2015	175
Sanhitha Reddy (Minor)	November 22, 2014	Nil	50,00,000 (12.81%)	Reg. 13(1) and 13(4A) read with 13(5) of PIT Regulations	November 25, 2014	May 19, 2015	175

6.3. In view of the above, it was alleged that the following Noticees:

6.3.1. Noticee(s) No. 1 have violated Regulation 13(3), Regulation 13(4) and Regulation 13(4A) read with Regulation 13(5) of PIT 1992;

6.3.2. Noticee (s) No. 2 and 3 have violated Regulation 13(1) and Regulation 13(4A) read with Regulation 13(5) of PIT 1992.

7. Vide letter dated December 18, 2018, Noticees sought for eight week extension to reply to the SCN.

Reply pursuant to SCN:

8. Vide letter dated February 13, 2019, the Noticees have submitted the following reply which are broadly states:

8.1. *The open offer was completed by acquisition of 89,80,901 shares amounting to 23.01% of the equity shares of the company on November 20, 2014. After the said acquisition, Noticee No. 1 made the requisite disclosures to the Exchanges under Regulation 13 of SAST Regulation on November 20, 2014, under Clause 35(c) as per the Listing Agreement (post offer) on November 24, 2014 and Corporate announcement under the heading Completion of open offer on November 20, 2014 to Exchange.*

8.2. *The Noticees due to professional advice received were under a genuine belief that there is no requirement of any disclosures as the intention to acquire the shares were already disclosed by Noticee No. 3. Noticee No. 1 was power of attorney to act on behalf of Noticee No. 3. Futher, Since it was presumed due to inter se transfer between the Noticees No. 1 to his minor daughter Noticee No. 2 and Noticee No. 3 there was no requirement of disclosures.*

8.3. *The company received e-mail from SEBI on December 29, 2014 regarding clarification on change in shareholding of Noticee No. 1 between November 21, 2014 and December 15, 2014. The Noticee No. 1 vide e-mail dated December 30, 2014, clarified the reasons for such change and sought clarification from SEBI regarding disclosures to be made under SAST and PIT. After receiving the clarification from SEBI, company made immediately disclosures under SAST and PIT on May 19, 2015 without delay.*

8.4. *The Noticees or Company did not have any intention to hide anything from the market by making delay disclosures*

8.5. *The post offer was merely inter se transfer of shares between the immediate family members of the promoter and his family and there was no change in promoter holding pursuant to the transfer. The same was disclosed to the exchange during the quarterly shareholding pattern for the quarter ended December 31, 2014. Hence, there was substantial compliance of disclosures about promoters shareholding.*

8.6. *On account of delay in making disclosures, the Noticees have not made any disproportionate gains or unfair advantage and no loss has been caused to the investors.*

8.7. *The alleged breaches are unintentional or technical in nature and are not of repetitive nature.*

Personal Hearing:

9. In the interest of natural justice and in order to conduct an inquiry in terms of Rule 4(3) of the Rules, Hearing Notice was issued to Noticees on February 20, 2019 granting an opportunity of personal hearing before the undersigned on March 13, 2019.

10. Noticee No. 1 and Authorized Representative (hereinafter referred to as “AR”) appeared before the undersigned on behalf of other Noticees on the said date. AR reiterated to the written submission made pursuant to the SCN.

ISSUES FOR CONSIDERATION and FINDINGS :

11. I have carefully perused the replies and submissions of the Noticees and the documents available on record. The issues that arise for consideration in the present case are:

Issue I: Whether the following Noticees have violated:

- i. Regulation 29(2) read with Regulation 29(3) of SAST Regulations by Noticee(s) No. 1,2, 3, 4 and 5;
- ii. Regulation 13(3), 13(4) and 13(4A) read with Regulation 13(5) of PIT Regulations by Noticee No. 1;
- iii. Regulation 13(1), and 13(4A) read with Regulation 13(5) of PIT Regulations by Noticee(s) No. 2 and 3;
- iv. Regulation 10(5), Regulation 10(6), Regulation 10(7) of SAST Regulations by Noticee(s) No. 2, 3, 4 and 5.

Issue II Does the violation, if any, attract monetary penalty under Section 15A(b) of SEBI Act on Noticee(s) No. 1, 2, 3,4 and 5;

Issue III If so, what should be the quantum of monetary penalty?

Findings in respect to violation of Regulation 29(2) read with Regulation 29(3) of SAST by Noticee(s) No. 1, 2, 3, 4 and 5:

12. Before proceeding further, I would like to refer to the relevant provisions of SAST Regulations, **Relevant provisions of SAST Regulations are reproduced hereunder:**

SAST Regulations

29(2) Any acquirer, who together with persons acting in concert with him, holds shares or voting rights entitling them to five percent or more of the shares or voting rights in a target company, shall disclose every acquisition or disposal of shares of such target company representing two per cent or more of the shares or voting rights in such target company in such form as may be specified.

29(3) The disclosures required under sub-regulation (1) and sub-regulation (2) shall be made within two working days of the receipt of intimation of allotment of shares, or the acquisition of shares or voting rights in the target company to,-

- (a) every stock exchange where the shares of the target company are listed; and
- (b) the target company at its registered office.

12.1. I find that Noticee(s) No. 1 along with Noticee No. 3 as Persons acting in Concert (hereinafter referred to as "PAC") filed draft letter of offer to acquire through open offer 26% of shares of the target company. The said open offer was completed by acquiring 23.01% of the shares of the target company on November 20, 2014. After the said acquisition,

12.2. I note that Noticee No. 1 was a Promoter of the Target company and Noticee(s) No. 2,3,4 and 5 were part of the promoter group and person acting in concert in the target company. The details of shares held by the Noticee(s) post offer are mentioned below:

Name of the Noticees	Date of Acquisition/Sale	Shareholding	
		Before	After
Palem Srikanth Reddy	November 20, 2014	89,20,307 (22.85%)	1,79,01,508 (45.86%)
Palem Srikanth Reddy	November 22, 2014	1,79,01,508 (45.86%)	79,01,508 (20.24%)
Stuthi Reddy	November 22, 2014	4,15,796 (1.07%)	1,04,15,796 (26.69%)
Sanhitha Reddy (Minor)			
P Soujanya Reddy			
Dakshayani Reddy			

Findings with respect to violation of Regulation 29(2) read with Regulation 29(3) of SAST Regulation by Noticee No. 1 in regard to acquisition of 23.01% shares of Target Company:

13. I find that Noticee No. 1 had acquired 23.01% of shares through open offer on November 20, 2014 which led to increase in his shareholding from 22.85% to 45.86% of shares in the target company. Since the acquisition of shares in the target company was two percent and more, Noticee No. 1 was required to make disclosure under Regulation 29(2) read with Regulation 29(3) of SAST Regulation within two working days. I note that Noticee No. 1 has submitted that post acquisition he had made disclosures under Regulation 13 of PIT Regulations, disclosure under Clause 35(c) as per listing agreement to the stock exchanges and the same was also informed under the corporate announcement of the stock exchange website. I note from the website of the stock exchange that disclosure was made by the target company under Regulation 13(6) of PIT Regulation on November 24, 2014 under the head "Disclosures" and the same was disseminated under the head "corporate announcements" attaching the disclosure made by Noticee No. 1 under Regulation 13(3), 13(4), 13(4A) and Regulation 13(6)

of PIT Regulation. Taking into consideration that Noticee No. 1 had made disclosures applicable under Regulation 13 of PIT Regulations and the same was disseminated at the stock exchange website, at this juncture, I would like to quote the *SAT Order dated September 04, 2013 passed by the Hon'ble SAT in the matter of Vitro Commodities Private Limited Vs. SEBI* wherein the Hon'ble SAT had observed that "*It may be noticed that provisions of Regulations 7(1) of Takeover Regulations, 1997 and Regulation 13(1) of PIT Regulations, 1992 are not substantially different, since violation of first automatically triggers violation of second and hence there is no justification for imposition of penalty for second violation when penalty for first violation has been imposed. It may be seen that Regulation 7(1) of Takeover Regulations, 1997 and Regulation 13(1) of PIT Regulations, 1992 are not stand alone Regulations and one is corollary of other*".

14. In the light of the above observations of Hon'ble SAT and taking into accounts that disclosure with regard to change in shareholding and disclosure was available in public domain in one or the other form, I am of the view that the violation of the provisions of Regulation 29(2) of SAST Regulations and Regulation 13 of PIT Regulations are not substantially different and therefore, I am inclined not to impose penalty under Section 15A(b) of SEBI Act for the violation under Regulation 29(2) of SAST Regulations.

Findings with respect to violation of Regulation 29(2) read with Regulation 29(3) of SAST Regulation by Noticee No. 1,2,3,4 and 5 in regard to inter-se-transfer of shares:in the Target Company:

15. I note that on November 22, 2014, Noticee No. 1 had disposed 1,00,00,000 shares. I note from the records submitted that Noticee No. 1, father of Noticee(s) No. 2 and 3 had gifted 1,00,00,000 shares (25.62%) of the shareholding between Noticee(s) No. 2, (who is minor and Noticee No. 1 was her natural guardian) and Noticee No. 3. I find that Noticees in their submission dated February 13, 2019 contended that "*post offer were merely inter se transfer of 45.86% of shares between the Noticee (s) No. 1, 2 and 3, the shareholding of the promoter and the promoter group did not change and remained constant at 45.86%. Further, the quarterly share holding pattern submitted to the Exchanges for the quarter ended December 31, 2014, submitted with the exchange on January 10, 2015 disclosed the holding of the promoter and promoter group. Hence, there is substantial compliance of the disclosure about the promoter shareholding though not made under the SAST Regulation*".
16. The matter before me is that Noticee No. 1 had disposed the shares of the target company by transferring 1,00,00,000 shares (25.62%) of the shareholding between PAC, Noticees No. 2 (50,00,000 shares i. e 12.81%) and to Noticee No. 3,(50,00,000 shares i.e. 12.81%) on November 22, 2014, though there was no change in the total shareholding as contended by the Noticees but there is a change in the individual shareholding of Noticee No. 1 by disposing his shares, his shareholding reduced from 45.86% to 20.24% and the total shareholding of the PAC i.e Noticee(s) No. 2,3,4 and 5 by acquiring the shares of the target company there was a change of shareholding from 1.06% to 26.69%. By change in the shareholding, it triggered the disclosure to be made under Regulation 29(2) read with Regulation 29(3) of

SAST Regulations by Noticee(s) No. 1, 2, 3, 4 and 5 *inter-alia stipulates* “any acquirer, who together with persons acting in concert with him, holds shares or voting rights entitling them to five percent or more of the shares or voting rights in a target company, shall disclose every acquisition or disposal of shares of such target company representing two per cent or more of the shares or voting rights in such target company within two working days to the stock exchanges and the target company”. In view of the foregoing, I note that Noticee No. 1 had transferred/disposed his shares exceeding more than two percent and Noticee(s) No. 2, 3, 4 and 5 acting as PAC acquired more than two percent of shares in the target company and therefore were required to comply with disclosure requirement under SAST Regulations. These compliances related to disclosure of acquisition and disposal of holding are enshrined in Regulation 29(2) read with Regulation 29(3) of SAST Regulations.

17. The Noticee(s) have submitted that it had made disclosures to the Stock Exchanges under quarterly shareholding ended December 2014, it is pertinent to note it is not enough that the disclosures have been made under quarterly shareholding, wherein the Regulation 29(2) read with Regulation 29(3) enshrines that the disclosures should be made within two working days. But the Noticee(s) have belated by 175 days.
18. Given the above, the Noticee(s) No. 1,2,3,4 and 5 by not making disclosures within the stipulated timeline have violated the provisions of Regulation 29(2) read with Regulation 29(3) of SAST Regulation.

Finding in regard to violation of Regulation 10(5), 10(6) and 10(7) of SAST Regulation by Noticee(s) No. 2, 3, 4 and 5:

The relevant provision in terms of Regulation 10 of SAST Regulation

(5) In respect of acquisitions under clause (a) of sub-regulation (1), and clauses (e) and (f) of sub-regulation (4), the acquirer shall intimate the stock exchanges where the shares of the target company are listed, the details of the proposed acquisition in such form as may be specified, at least four working days prior to the proposed acquisition, and the stock exchange shall forthwith disseminate such information to the public.

(6) In respect of any acquisition made pursuant to exemption provided for in this regulation, the acquirer shall file a report with the stock exchanges where the shares of the target company are listed, in such form as may be specified not later than four working days from the acquisition, and the stock exchange shall forthwith disseminate such information to the public.

(7) In respect of any acquisition of or increase in voting rights pursuant to exemption provided for in clause (a) of sub-regulation (1), sub-clause (iii) of clause (d) of sub-regulation (1), clause (h) of sub-regulation (1), sub-regulation (2), sub-regulation (3) and clause (c) of sub-regulation (4), clauses (a), (b) and (f) of sub-regulation (4), the acquirer shall, within twenty-one working days of the date of acquisition, submit a report in such form as may be specified along with supporting documents to the Board giving all details in respect of acquisitions, along with a non-refundable fee of rupees17[one lakh fifty thousand]18[by way of direct credit in the bank account through NEFT/RTGS/IMPS or any other mode allowed by RBI or] by way of a banker's cheque or demand draft payable in Mumbai in favour of the Board.

Explanation.—For the purposes of sub-regulation (5), sub-regulation (6) and sub-regulation (7) in the case of convertible securities, the date of the acquisition shall be the date of conversion of such securities.

19. Before going further to my findings, I note under Regulation 10 of SAST Regulation specifies about exemption granted to make open offer by the acquirer on fulfillment of certain conditions. One of the exemption granted from open offer to the acquirer and PAC is stipulated under Regulation 10(1)(a)(i) which inter-alia states that “

*The following acquisitions shall be exempt from the obligation to make an open offer under regulation 3 and regulation 4 subject to fulfillment of the conditions stipulated therefor,—
(a) acquisition pursuant to inter se transfer of shares amongst qualifying persons, being,—
(i) immediate relatives;*

20. I find from the record that Noticee(s) 1, 2 and 3 were granted exemptions under Regulation 10(1)(a)(i) of SAST Regulations, since it was inter-se-transfer of shares between the immediate relatives. However, I note under Regulation 10(5), (6), the Noticee(s) 2, 3, 4 and 5 together as a PAC pursuant to exemption were required to intimate or submit report to the stock exchanges where the shares of the target company are listed with the details of the proposed acquisition and under Regulation 10(7) were required to submit report to SEBI with all the details in respect of the acquisition.
21. I find from the submission made by the Noticees that they were not clear whether disclosures had to be made since it was a inter-se-transfer and it had sought clarification from SEBI and after receiving the clarification made the disclosures thereafter. I note from the records, that the Noticees sought the clarification from SEBI after it received query from SEBI in regard to their acquisition. I also do not take the contention of the Noticees as it is clear from the Regulation 10(5) and (6) of SAST Regulations, that pursuant to exemption acquirer has to make disclosure to stock exchange within four working days and under Regulation 10(7) of SAST Regulation the details has to be submitted to the Board within twenty one working days. I find that Noticee(s) No. 2,3, 4 and 5 delayed in making under Regulation 10(5) of SAST Regulation by 182 days and under Regulation 10(6) of SAST Regulation by 173 days and under Regulation 10(7) of SAST Regulation by 148 days.
22. In view of the foregoing, I find that Noticee(s) No. 2, 3, 4 and 5 have violated provisions of Regulation 10(5), Regulation 10(6) and Regulation 10(7) of SAST Regulations.

Findings with respect to violation of Regulation 13(3), Regulation 13(4) and Regulation 13(4A) of PIT Regulation by Noticee No. 1, Regulation 13(1) and 13(4A) by Noticees No. 2 and 3:

The relevant provision in terms of PIT Regulations, 1992:

Continual Disclosure

13. (1) Any person who holds more than 5% shares or voting rights in any listed company shall disclose to the company in Form A, the number of shares or voting rights held by such person, on becoming such holder, within 2 working days of :—

- (a) the receipt of intimation of allotment of shares; or

(b) the acquisition of shares or voting rights, as the case may be.

13(3) Any person who holds more than 5% shares for voting rights in any listed company shall disclose to the company in Form C the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below 5%, if there has been change in such holdings from the last disclosure made under sub-regulation (1) or under this sub-regulation; and such change exceeds 2% of total shareholding or voting rights in the company;

(4) Any person who is a director or officer of a listed company, shall disclose to the company and the stock exchange where the securities are listed in Form D, the total number of shares or voting rights held and change in shareholding or voting rights, if there has been a change in such holdings of such person and his dependents (as defined by the company) from the last disclosure made under sub-regulation (2) or under this sub regulation, and the change exceeds Rs. 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower.

(4A) Any person who is a promoter or part of promoter group of a listed company, shall disclose to the company and the stock exchange where the securities are listed in Form D, the total number of shares or voting rights held and change in shareholding or voting rights, if there has been a change in such holdings of such person from the last disclosure made under Listing Agreement or under sub-regulation (2A) or under this sub-regulation, and the change exceeds Rs. 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower.

13(5) The disclosure mentioned in sub-regulations (3), (4) and (4A) shall be made within two working days of:

(a) the receipts of intimation of allotment of shares, or

(b) the acquisition or sale of shares or voting rights, as the case may be

Repeal and Savings.

12. (1) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 are hereby repealed.

(2) Notwithstanding such repeal,—

(a) the previous operation of the repealed regulations or anything duly done or suffered thereunder, any right, privilege, obligation or liability acquired, accrued or incurred under the repealed regulations, any penalty, forfeiture or punishment incurred in respect of any offence committed against the repealed regulations, or any investigation, legal proceeding or remedy in respect of any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid, shall remain unaffected as if the repealed regulations had never been repealed; and (b) anything done or any action taken or purported to have been done or taken including any adjudication, enquiry or investigation commenced or show-cause notice issued under the repealed regulations prior to such repeal, shall be deemed to have been done or taken under the corresponding provisions of these regulations;

(3) After the repeal of Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, any reference thereto in any other regulations made, guidelines or circulars issued thereunder by the Board shall be deemed to be a reference to the corresponding provisions of these regulations.

Findings in regard to violation of Regulation 13(3), Regulation 13(4) and Regulation 13(4A) read with Regulation 13(5) of PIT Regulations by Noticee No. 1:

23. From the foregoing paragraph, I find that pursuant to disposed/ transfer of shares by Noticee No. 1 on November 22, 2014 his holding reduced from 45.8% to 20.24% on November 22,

2014. Since Noticee No. 1 was holding more than 5% of shares in the target company pursuant to the transfer of shares resulted in change of shareholding exceeding 2% which triggered Noticee No. 1 to make disclosures under Regulation 13(3) of PIT Regulation *inter-alia* specifies disclosure requirements *on any person holding more than 5% shares which results into change failing below 5% from the last disclosure or such change exceeds 2% of total shareholding.*

24. Further, I note that Regulation 13(4) of PIT Regulations *inter-alia* specifies disclosure requirements on a director or officer and I also note under Regulation 13(4A) of PIT Regulation *inter-alia* stipulates disclosure requirements on a promoter or part of promoter group where there has been change exceeding Rs. 5 lakh in value or 25,000 shares or 1% in his shareholding of his total shareholding or voting rights in the target company subsequent to the previous disclosure.
25. In the instant case, Noticee No. 1 being the Managing Director and the Promoter of the target company prior to the transfer of his shares to Noticee No. 2 and 3 on November 22, 2014 he was holding 1,79,01,508 shares amounting to 45.86% and the same was reduced to 79,01,508 shares amounting to 20.24%, which triggered the disclosure to be made under Regulation 13(4) being the Director and Regulation 13(4A) of PIT Regulations being the promoter of the target company, where the change exceeds Rs. 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower. It is noted that Noticee No. 1 made belated in making disclosures under Regulation 13(4) and Regulation 13(4A) of PIT Regulation on May 19, 2015 with a delay of 175 days.
26. In view of the above, the allegation against Noticee No. 1 with respect to violation of Regulation 13(3), Regulation 13(4) and Regulation 13(4A) read with Regulation 13(5) of PIT Regulations stands established.

Finding in regard to violation of Regulation 13(1) and 13(4A) read with Regulation 13(5) of PIT Regulations by Noticees No. 2 and 3:

27. From the foregoing paragraph, I note that Regulation 13(1) of PIT Regulation *inter-alia* stipulates that disclosure has to be made who holds more than 5% of shares or voting rights in any listed company on becoming such holder. I note that pursuant to the inter-se- transfer of shares by Noticee No. 1, the shareholding of Noticee No. 2 increased from 0% to 12.81% and the shares of Noticee No. 3 increased from 0% to 12.81%, which triggered the disclosure to be made under Regulation 13(1) of PIT Regulations as the shareholding of Noticee(s) 2 and 3 increased to more than 5%.
28. Further, I also note that Noticee No. 2 and 3 being the part of the promoter group of the target company, prior to the inter-se- transfer of the shares by Noticee No. 1, Noticee No. 2 holding increased from nil shares to 50,000 shares amounting to 12.81% of the shareholding and shareholding of Noticee No. 3 increased from Nil shares to 50,000 shares amounting to 12.81% of the shareholding, which resulted to disclosure to be made under Regulation 13(4A)

of PIT Regulations by Noticee(s) No. 2 and 3 being part of promoter group, where the change exceeds Rs. 5 lakh in value or 25,000 shares or 1% of total shareholding or voting rights, whichever is lower. I note that Noticee(s) No. 2 and 3 had made delayed disclosure under Regulation 13(4A) of PIT Regulation on May 19, 2015 by delay of 175 days. Hence, Noticee(s) No. 2 and 3 have violated Regulation 13(4A) read with Regulation 13(5) of PIT Regulations by not making disclosures within two working days.

29. Hence, considering the facts and circumstances of the instant case, I note that the disclosure requirements were failed to be complied by the Noticees and I am also not inclined to accept the submission of the Noticees with respect to such failure on their part to comply with the provisions of SAST Regulations and PIT Regulations for the reasons mentioned above. In view of the foregoing, I conclude that the Noticees have violated the provisions:

- 29.1. Regulation 29(2) read with Regulation 29(3) of SAST Regulation by Noticee(s) No. 1, 2, 3, 4 and 5;
- 29.2. Regulation 10(5), Regulation 10(6), Regulation 10(7) of SAST Regulations by Noticee(s) No. 2, 3, 4 and 5.
- 29.3. Regulation 13(3), 13(4) and 13(4A) read with Regulation 13(5) of PIT Regulations by Noticee No. 1;
- 29.4. Regulation 13(1), and 13(4A) read with Regulation 13(5) of PIT Regulations by Noticee(s) No. 2 and 3;

Issue II: Whether the Noticee(s) No. 1,2,3,4 and 5 is liable for monetary penalty under Section 15A(b) of the SEBI Act?

30. From the conclusions arrived at para above, I further conclude that the Noticee(s) are liable for monetary penalty under Section 15A(b) of the SEBI Act. The text of the said provision is as follows:

15A(b) to file any return or furnish any information, books or other documents within the time specified therefor in the regulations, fails to file return or furnish the same within the time specified therefor in the regulations, he shall be liable to a penalty 59[which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;

31. The ***Hon'ble Supreme Court of India in the matter of SEBI Vs. Shri Ram Mutual Fund [2006]*** held that *"In our considered opinion, penalty is attracted as soon as the contravention of the statutory obligation as contemplated by the Act and the Regulations is established and hence the intention of the parties committing such violation becomes wholly irrelevant..."*. Further in the matter of Ranjan Varghese v. SEBI (Appeal No. 177 of 2009 and Order dated April 08, 2010), the Hon'ble SAT had observed *"Once it is established that the mandatory provisions of takeover code was violated the penalty must follow."*

Issue III: If so, what quantum of monetary penalty should be imposed on the Noticee(s) No. 1,2,3,4 and 5?

“15J - Factors to be taken into account by the adjudicating officer while adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely:-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;*
- (b) the amount of loss caused to an investor or group of investors as a result of the default;*
- (c) the repetitive nature of the default.”*

Explanation: *For removal of doubts, it is clarified that the power to of an adjudicating officer to adjudge the quantum of penalty under Sections 15A to 15E, Clauses (b) and (c) of Section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section*

32. I note, with respect to default in submitting timely disclosures, the Noticee(s) have submitted that *“the delay has been unintentional and accidental on account of improper profession advice and since even after inter-se-transfer between the immediate family members, there would no change in the shareholding, there was no reason for the Notice to be non-compliant”* and further the Noticees have submitted that *“delay in disclosures, the Noticees have not made any disproportionate gains or unfair advantage and no loss has been caused to the investors”*.
33. With respect to the submission made by the Noticee(s) that the said non-disclosure was unintentional and no gain was made by the Noticee(s) on account of the default, I note the following observation made by Hon'ble SAT in the matter of *Akriti Global Traders Ltd Vs. SEBI* (Appeal No. 78 of 2014 dated September 30, 2014):
- “...Argument of appellant that the delay was unintentional and that the appellant has not gained from such delay and therefore penalty ought not to have been imposed is without any merit, because, firstly, penal liability arises as soon as provisions under the regulations are violated ad that penal liability is neither dependent upon intention of parties nor gains accrued from such delay...”*
34. I also refer to the following observation by Hon'ble SAT in the case of *Mrs. Komal Nahata Vs SEBI* (Appeal No. 5 of 2014 dated on January 27, 2014) *“...Argument that no investor has suffered on account of non disclosure and that the AO has not considered the mitigating factors set out under Section 15J of SEBI Act, 1992 is without any merit because firstly penalty for non compliance of SAST Regulations, 1997 and PIT Regulations, 1992 is not dependent upon the investors actually suffering on account of such non-disclosure”*. Therefore, the contention of the Noticees that no disproportionate gains or unfair advantage or no loss is caused to the investors is not tenable.
35. The very fact that the Noticees have delayed in making disclosures when they were required to do so under provisions of SAST Regulations and PIT Regulations, warrants that penalty shall be imposed for such violation, however, further taking into consideration I am also inclined to consider that change in shareholding was duly reflected in the quarterly shareholding disclosure made by the company applicable at that time and therefore

considering the facts and circumstance of the case and mitigating factors as mentioned above, a justifiable penalty needs to be imposed upon the Noticees.

ORDER

36. In view of the above and after considering the factors under Section 15J of the SEBI Act, in exercise of the powers conferred under Section 15 I of the Securities and Exchange Board of India Act, 1992, and Rule 5 of AO Rules, I hereby impose a penalty under Section 15A(b) of the SEBI Act, 1992 for the following violation by the Noticee(s):

Name of the Noticee	Violation Provisions	Amount of Penalty (Rs.)
Palem Srikanth Reddy	Regulation 29(2) read with Regulation 29(3) of SAST Regulation	Rs. 2,00,000/- (Rupees Two Lakh Only) (jointly and severally)
Palem Srikanth Reddy (on behalf of the Minor Ms. Sanitha Reddy)		
Stuthi Reddy		
P. Soujanya Reddy		
Dakshayani Reddy		
Palem Srikanth Reddy	Regulation 13(3), 13(4) and 13(4A) read with Regulation 13(5) of PIT Regulation	Rs. 2,00,000/- (Rupees Two Lakh Only)
Palem Srikanth Reddy (on behalf of Ms. Sanitha Reddy (Minor))	Regulation 13 (1) and Regulation 13(4A) read with Regulation 13(5) of SAST Regulation	Rs.1,00,000/- (Rupees One Lakh Only)
Stuthi Reddy		Rs.1,00,000/- (Rupees One Lakh Only)
Palem Srikanth Reddy (on behalf of the Minor Ms. Sanitha Reddy)	Regulation 10(5), Regulation 10(6), Regulation 10(7) of SAST Regulations	Rs. Rs. 2,00,000/- (Rupees Two Lakh Only) (Jointly and severally)
Stuthi Reddy		
P. Soujanya Reddy		
Dakshayani Reddy		

37. In the facts and circumstances of the case, I am of the view that the said penalty is commensurate with the default committed by the Noticees.
38. The Noticees mentioned above shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favor of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through e-payment facility into Bank Account the details of which are given below:

Account No. for remittance of penalties levied by Adjudication Officer

Bank Name	State Bank of India
Branch	Bandra-Kurla Complex
RTGS Code	SBIN0004380

Beneficiary Name	SEBI – Penalties Remittable To Government of India
Beneficiary A/c No	31465271959

39. The Noticees shall forward said Demand Draft or the details/confirmation of penalty so paid through e-payment to the General Manger (Enforcement Department - DRA- III) of SEBI. The format for forwarding details/confirmations of e-payments shall be made in the following tabulated form as provided in SEBI Circular No. SEBI/HO/GSD/T&A/CIR/P/2017/42 dated May 16, 2017 and details of such payment shall be intimated at e-mail ID- tad@sebi.gov.in:

Date	
Department of SEBI	
Name of Intermediary/other Entity	
Type of Intermediary	
SEBI Registration Number (if any)	
PAN	
Amount (in Rs.)	
Purpose of payment	Penalty
Bank Name and Account Number from which payment is remitted	
UTR No	

40. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, recovery proceedings may be initiated under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.
41. In terms of Rule 6 of the Rules, copy of this order is sent to Noticees and also to the Securities and Exchange Board of India.

Date: May 30, 2019
Place: Mumbai

SAHIL MALIK
ADJUDICATING OFFICER